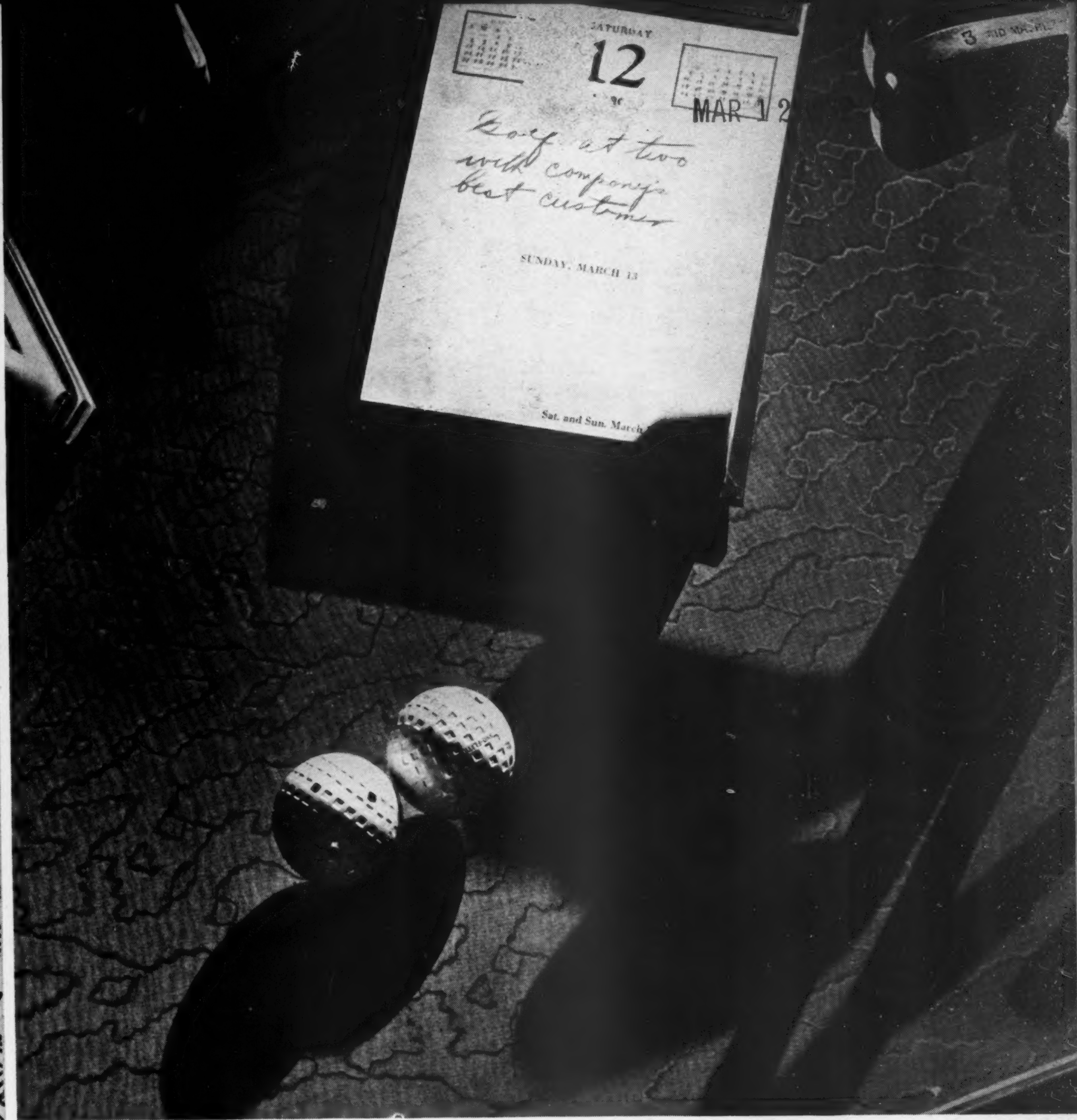
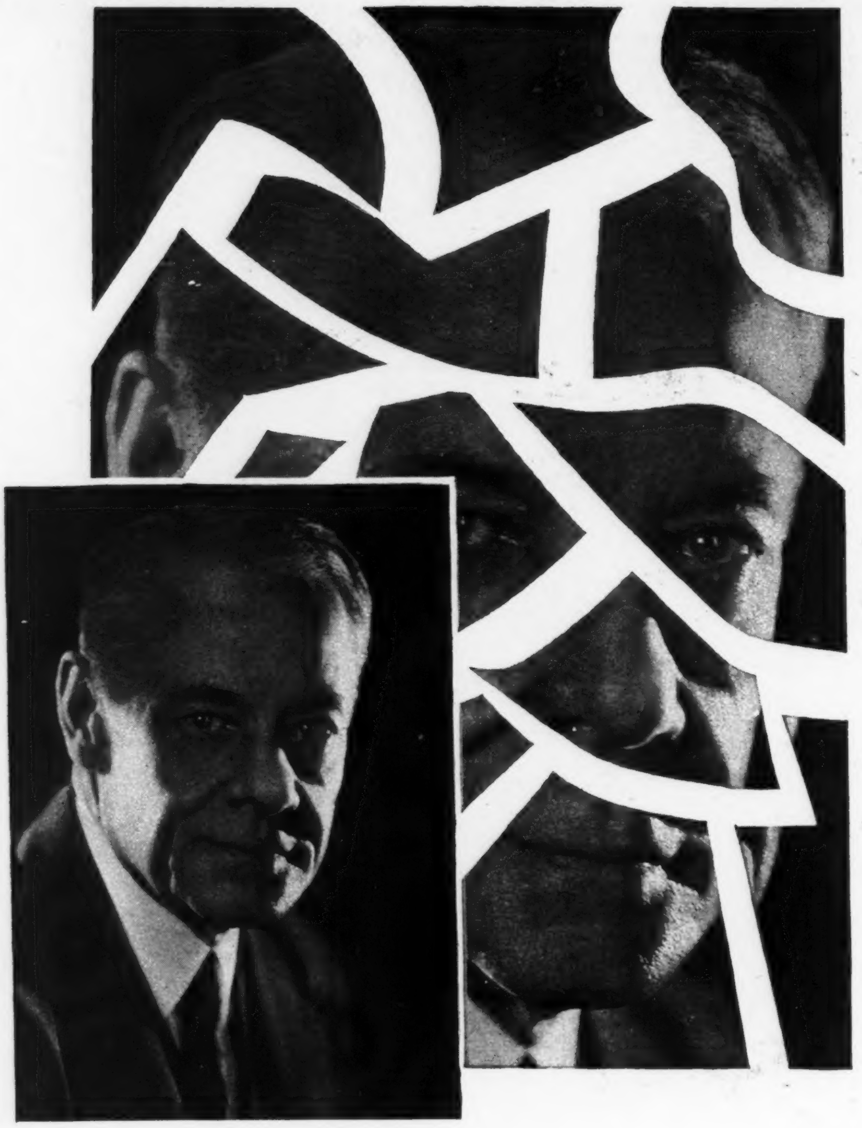


CREDIT and FINANCIAL MANAGEMENT

Vol. 34, No. 3 MARCH, 1932 Established 1898

Standardize the gold standard - - - - - - - - - LIONEL D. EDIE
Buying for a bust - - - - - - - - - - R. A. COLLITON
Creditor tariffs - - - - - - - - - - Dr. MAX WINKLER
Aids for statistical analyses - - - - - - - - - H. G. ROMIG
An analysis of unemployment by Labor's chief
Red lines make bread lines - - - - - - - - WILLIAM GREEN



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Looking ahead

Carl Snyder, statistician of the Federal Reserve Bank of New York, will present a statistical comparison of the present depression and that of 1921-22, bringing into his discussion in our next month's issue the gold standard and its possible place in the two recessions and a comparison of the extent of price declines then and now. Fundamentals such as these are essential to a thorough understanding of our troubles.

Industrial failures have many causes—external and internal—says Paul J. Fitzpatrick in his analysis of reasons for failures in our next issue. The data for this article are taken from his own "Symptoms of Industrial Failures" which we reviewed briefly in our book column last month.

Bring credit information to the attention of the person whose credit has been investigated. That is the point stressed by Dr. Ladislaus Radvanyi, Hungarian Privy Councillor, in a special article written from Budapest.

The workings of the Credit Department of the Cluett-Peabody Company, makers of Arrow Collars, are analyzed and presented for our readers by H. W. Woodruff of that company. This is another of our series of articles on Gold Star Credit Departments.

CREDIT and FINANCIAL MANAGEMENT

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Red tennis balls

In one scene of a play staged by a theatre repertory company in Connecticut last summer, red tennis balls were placed in glasses to serve as and substitute for raspberry ices. The butler brought in the glasses with the red tennis ball raspberry ices. During one of the performances a bridesmaid jostled against the butler and the tennis balls were jarred out of the glasses. Imagine the consternation of both the audience and the players as they gazed wide-eyed at the raspberry ices bouncing across the stage. The audience broke the tension and crashed through the silence with a roar of laughter. The actors in the cast, unable to restrain themselves, joined the audience in the merriment of the ludicrous occasion. The actors learned their lesson and replaced the red tennis balls with a plastic composition material that guaranteed no more mishaps.

Our so-called business, economic and political statesmanship, has become an amusing spectacle of bouncing red tennis ball fallacies that have been interpreted to the American people as sound, logical facts. Visit a session of Congress, listen analytically to the proceedings of one of our great business and industrial conferences and you will be amazed and amused by the bounce-bounce-bouncing of scores and scores of red tennis balls—red tennis balls that symbolize fallacies, untried theories, national and political prejudices, half-truths, antiquated principles, lackadaisical thinking and distorted facts.

Nothing has brought down on our heads such a cloudburst of red tennis balls as this depression. Everyone clamored to take the responsibility for our prosperity. No one has been willing to take the responsibility for the depression. Most of the leaders in this country preach that the United States cannot recover until the world gets well. The rest of the world says that as the dominant creditor nation, we must lead the way back. Who is right? Who is wrong?

The hue and cry rings across the land that there is more money in the United States today than in the hilarious days of 1929. We forget so easily that money spoils just as quickly as eggs. We forget that the world is kept in balance today by a credit economy and not a money economy.

Business has not bothered to turn its attention to the submerged 73 per cent of our population where an effective demand lies dormant and wasted. There are four million families in this great country of ours who have no bathtubs; thirteen million families who have no telephones. Our business leaders refuse to accept the fact that our problem is one of underconsumption and not over-production.

Fortunately, the people are rapidly learning that a man isn't a big man simply because he happens to be the President or Chairman of the Board of a big organization. Too often the Chairman of the Board is more truly the Chairman of the Bored. So many business leaders still cling to the hoary tradition that gray hair is more important than gray matter. We have learned that democracy tends to develop too many generals and not enough corporals and buck privates. There are too many to tell how work should be done—not enough who have the ability or willingness to do the work. Our great trouble is not so much idle money and idle men as it is idle minds.

These observations bring us down to the naked truth that economic laws are paradoxical instead of equinoctial. A dearth of food and an over-supply of food both cause the same degree of human distress and suffering. We haven't learned to dodge the economic boomerangs that fly back and knock us silly. Never before has the old adage that "the sins we do by two and two, we pay for one by one" seemed more true than today. However, it is the public, the average Mr. and Mrs. Consumer and Wage Earner who must pay one by one for the economic sins that our leaders commit by two and two.

There has been too much racqueteering of red tennis balls; too much juggling of facts; too much acceptance of the thinking of others and not enough thinking for ourselves. Our leaders are engaged in the game of hitting red tennis balls back and forth across the net of public opinion. They don't tell us what they really believe. They tell us what they think we should believe. There are too many red tennis balls. Give us white tennis balls of truth, fact and sincerity and we'll defeat our depression opponent 6-0, 6-0, 6-0.

Chester H. McCall

Standardize the gold standard!

by LIONEL D. EDIE,
Economist and
Bank Authority

The extreme decline of commodity prices which now convulses the economic world was unnecessary. It has come about from a refusal on the part of central banks to make the gold standard function in the way in which it is intended to function.

By this, I mean that the central banks, including the Federal Reserve, have refused to use the credit and gold mechanism to combat the forces of industrial disorganization. They have defined their functions during a period of maladjustments in trade and production as "largely negative", to use the phrase of the official annual report of the New York Reserve Bank. They, therefore, refused to mobilize the defensive power of money against the offensive savagely launched by surpluses of production in certain lines, by waves of consumer retrenchment, by fears and flights of savers, depositors, spenders and hoarders.

This is not to deny in the least that many of the most severe forces of disorganization have been industrial maladjustments. This is not to deny that surpluses of coffee, copper, wheat and sugar have been causes of the price upheaval. But it is to deny the official philosophy that money is not a weapon to fight these disorganizing forces. The whole foundations of capitalistic society depend upon an orderly monetary standard—in this generation upon the gold standard—and when these foundations are allowed to crumble without putting up a fight, the harvest is a collapse of confidence and of the commodity price level. Let there be no mistake about it—money has a role to play, a positive role. That role is to marshall the financial resources of society against periodic attacks of fear and maladjustment in the industrial world. Gold has not failed, the gold standard has not failed—it is the negative, passive administration of the gold standard which has failed.

The deflation of 1931 differs sharply from the deflation of 1921 in that 1931 was not preceded by a sharp inflation of commodity prices. In the present instance, the prior inflation of commodities had been very small and the corrective action on the down side did not need to be violent. Some deflation was called for, but beyond a moderate point further deflation had no healthy corrective powers: instead, it accentuated acutely a general economic dislocation of unprecedented proportions.

The function of a gold standard, rightly administered, is to combat excessive deflations of no corrective value.

The statistical side of the story is long and complex but a few simple salient facts can be briefly stated.

1. In the United States, demand deposits of banks outside New York City are the most significant credit force related to commodity prices. These deposits, relative to the normal credit requirements of the country, have been allowed to decline during the last three years more than 30 per cent. The Bureau of Labor Index of commodity prices has declined by practically the same percentage.

2. Demand deposits are the medium of exchange for about nine-tenths of the trade of the country. These deposits outside New York City at present use up a gold reserve of only about $400,000,000, or less than one-tenth of the gold supply of this country. This is after allowing for the recent exodus of gold. In brief, less than one-tenth of our huge gold supply is mobilized to sustain the form of credit which does nine-tenths of the money work of the great industrial and agricultural hinterland of America and which supports the commodity price level.

3. The amount of gold dedicated to support this credit level has shrunk materially during the last three years when normal growth requirements alone would have called for its increase by at least 10 per cent.

4. The New York City banks tie up only about $200,000,000 of gold as backing for their demand deposits. In their passion for liquidity they have become tantamount to gigantic investment trusts for the holding of Libery bonds and collateral loans.

5. The maintenance of easy money rates and of a nominal amount of excess reserve balances of New York member banks has been pointed to by Federal Reserve officials as evidence that they were doing something positive to resist deflation. This evidence is, in my opinion, quite illusory. The easy rates were of no importance as long as the *volume* of credit was shrinking drastically. The excess reserve balances have run around 1 per cent of the deposits of New York City banks, in contrast with 5 to 18 per cent in many previous depressions. Even this excess has been practically confined to the banks within a stone's throw of Wall Street. It has not flooded over into the banks outside New York City, where the great economic battle of deflation is being fought out.

6. Hand-to-hand currency does only one-tenth of the money work of the country but it is allowed to lock up as backing ten times as much gold as is mobilized to support the demand deposits of banks outside New York City. That is where the gold goes—into the currency melting pot—and its excessive sterilization there is as obsolete as bows and arrows.

7. The use of gold to combat deflation involves simply the application of the metal to combat the shrinkage of demand deposits of the hinterland. It requires piling up inactive reserves of gold to the account of interior banks until they are willing to make them ac-

(*Continued on page* 30)

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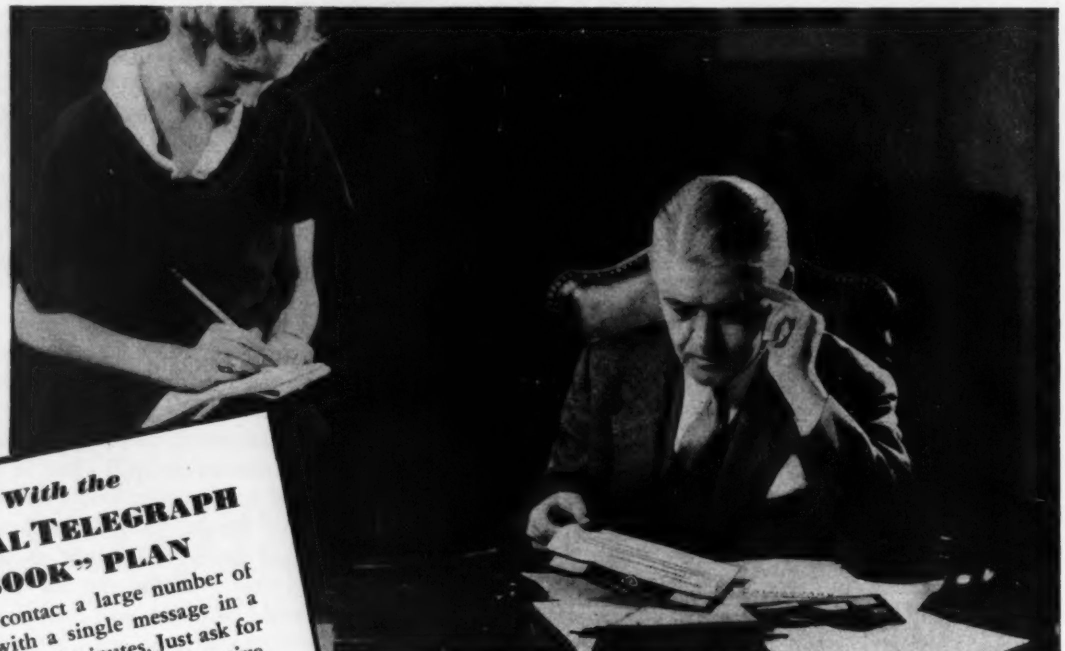

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citizens may be called upon to pay not only ordinary tax bills but arrears as well. The situation in the country's second largest city is so bad that recently there has been talk of having a receiver appointed for the municipality.

New York's troubles are well known as current news. One reason that they came about is that the city's expenditures increased from $1,018,000,000 to $1,416,000,000 in the three years between 1926 and 1929, the net funded debt at the same time going up from $1,294,000,000 to $1,516,000,000.

The 1917 pay-as-you-go policy of Mayor Mitchel, under which city credit could not be pledged for public improvements which did not carry themselves, was promptly repealed by his successor. Now the city is near the end of its borrowing power, at the limit which the constitution sets for the tax rate, able to finance public improvements only through increases in assessed valuation.

Philadelphia has had similar troubles. The credit of cities is failing, so high have they piled their debts.

Between 1922 and 1928 the net bonded indebtedness of cities, towns and villages increased from $6,316,000,000 to $11,106,000,000, going up 75%. At the same time net bonded indebtedness of states rose from $837,000,000 to $1,502,000,000, a 79% increase.

On June 30, 1931, the national debt was $16,800,000,000 and the combined state and local debts $13·500,000,000, the total being $30,300,000,000. Assuming, as census figures and actuarial computations indicate, that at that time there were 30,000,000 families in the United States, then each of them was beneath the shadow of a governmental debt of more than $1,000.

This deals with what we must pay some time and must be taken into consideration in connection with what we are paying now.

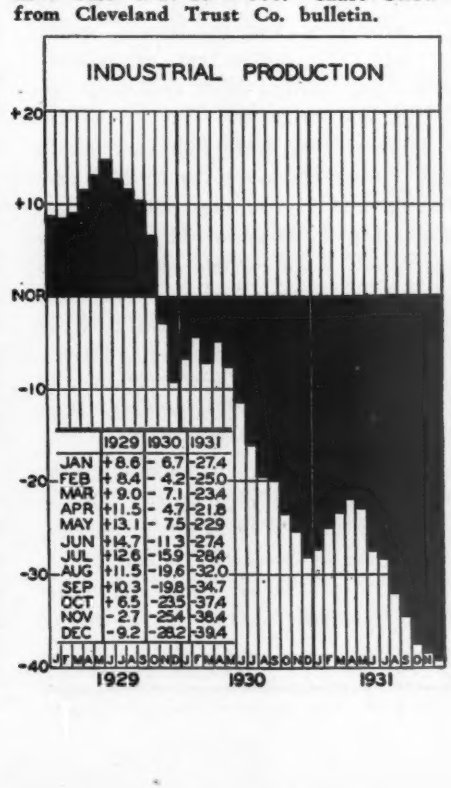
These are the amounts annually taken from our pockets, if not directly by the governments, just as certainly by those who eventually give them to the governments.

In 1890 they totaled $875,000,000, the Federal Government getting $374,000,000; States, $96,000,000, and local governments, $405,000,000, not quite as much as the others together. Even in 1903 local governments were taking more than State and national combined. Then the war sent Federal expenses up, so that in 1919 and 1921 it was requiring more than the other governments, and in 1922 still took more than local units.

In 1926 the Federal tax collections, too, exceeded those of the year before, and from that time to 1929 all rose at the same time, until in that year we paid to be governed $9,792,000,000, giving $4,833,000,000 to local units, $1,631,000,000 to States and $3,328,000,000 to the Federal Government.

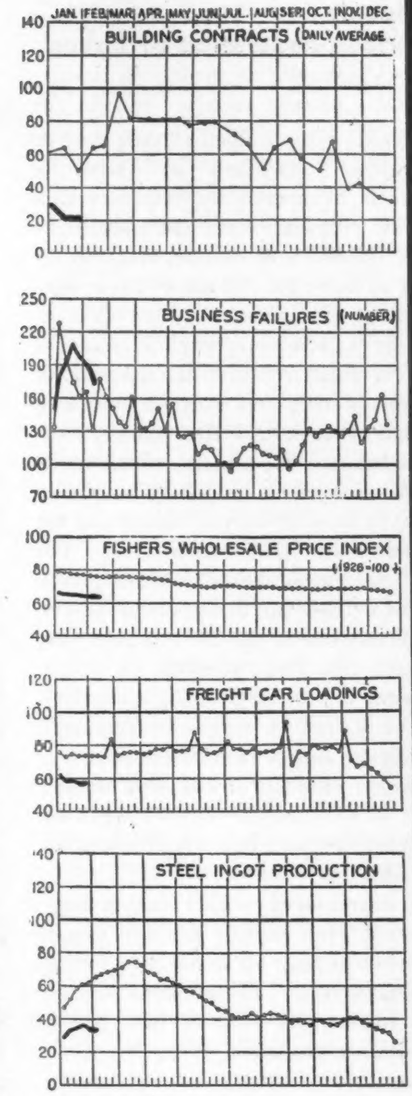
Credit pledged to the utmost taxes, multiplied by more than eleven in forty years, is it any wonder that governments, particularly the worst offenders, which are the local ones, are in trouble?

With the exception of Fisher's Index, U. S. Dept. of Commerce charts (right) have base 1923-25 = 100. Chart below from Cleveland Trust Co. bulletin.

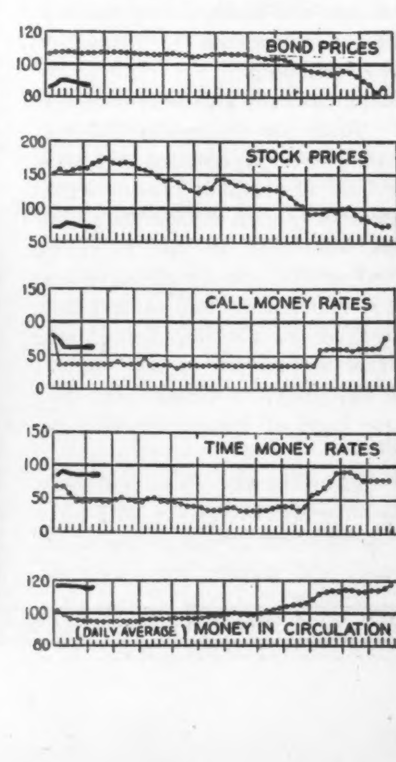


	1929	1930	1931
JAN	+8.6	- 6.7	-27.4
FEB	+8.4	- 4.2	-25.0
MAR	+9.0	- 7.1	-23.4
APR	+11.5	- 4.7	-21.8
MAY	+13.1	- 7.5	-22.9
JUN	+14.7	-11.3	-27.4
JUL	+12.6	-15.9	-28.4
AUG	+11.5	-19.6	-32.0
SEP	+10.3	-19.8	-34.7
OCT	+6.5	-23.5	-37.4
NOV	-2.7	-25.4	-38.4
DEC	-9.2	-28.2	-39.4

BUSINESS INDICES



FINANCIAL INDICES



The business

a compilation of business and

Straws in the wind

Blow hot, blow cold—the following straws indicate the strength and direction of the trade winds in recent weeks:

AUTO PRODUCTION: Promises by Henry Ford himself that a new Ford car will appear this month have caused a renewal of interest in the automobile field, which has not been showing the activity expected by some of its optimistic leaders. The replacement market becomes potentially greater each month, of course, as buying is held off, one magnate estimating 9,000,000 replacements by 1935.

BANK CLEARINGS: Reflecting the shorter week and declining industrial activity, bank clearings, as reported to Bradstreet's, dropped to a new low. Clearings for forty-seven leading cities of the United States during the week ending February 24 totaled $4,156,537,000 as against $4,992,278,000 in the previous week, or a decrease of 16.7 per cent. Omitting New York City, clearings amounted to $1,542,478,000 as compared with $1,835,305,000 in the preceding week, or a decline of 16 per cent. Normally the shorter week and other seasonal influences cause a decline of 11.7 per cent at this time.

BUILDING CONSTRUCTION: Probable improvement for the building industry can be anticipated before long because of three rather important factors: The decrease of wages will effect construction costs; secondly, confidence is now so low that the granting of permits can be rather a good indication that construction will actually take place, because unless a construction is really needed, plans are withheld and permits are not asked for at present. The extreme low price of building materials is another factor forecasting likely improvements in this line.

BUSINESS FAILURES: January failures set a new all-time high. That month, which is always the peak month with a usual increase of 30% for the period, felt the brunt of the poor conditions at the end of 1931. It is noted by observers that the January, 1932, increase is much smaller compared with the January, 1931, failures than it was for 1931 as contrasted with 1930. For February 9 The American Banker reported no bank failures. This is the first break in almost two years of daily suspensions and the generally improved outlook of some of the weaker banking units can be attributed to the stimulating effects on confidence of the formation of the Reconstruction Finance Corporation.

CAR LOADINGS: Loading of revenue freight for the week ended February 13 totaled 562,465 cars, the American Railway Association announced. This was 12,291 cars below the preceding week, 158,224 below the corresponding week in 1931, and 330,675 cars under the same period two years ago.

COMMODITY PRICES: Commodity prices in recent weeks have shown continued slight recessions, but the enactment of the Reconstruction Finance Corporation and the easy-money policy, followed by the banking system, can be taken as indications that prices should start rising slowly during the Spring months, because of the effect of the easing of credit brought about by the two above-mentioned factors.

INVESTMENTS: The middle of February saw a positive check of the decline and a climb of prices in the stock market, stimulated by the Glass-Steagall bill and other deflationary checking measures. Government bonds at the end of February were showing strength and the effect of the easy-money campaign by the Federal Reserve on high-grade bonds should be favorable. An interesting development is the promise of "Baby Bonds" by the Government to bring money from the pantry and the stocking banking system that has developed in recent months.

One of the handicaps of business in the present deflated times is the matter of huge government costs and consequent high taxation. It is interesting to note that while government expenditures of all kinds have been going up rapidly of late, those of the local governments have risen fastest of all. One hundred and forty-six cities of more than 30,000 population in the United States, according to the *New York Sun*, have increased their expenditures from $514,000,000 in 1903 to $2,952,000,000 in 1928, the greatest rate of increase having been shown in the last ten years.

In the sixteen years from 1903 to 1919 the spending had little more than doubled. In the next five years it registered as much of an increase, and still it continued to go up.

With expenditures debt increased from $1,395,000,000 for the 146 cities in 1903 to $7,605,000,000 in 1928, the debt for each inhabitant of the cities going up from $67 to $202.

It was because of pushing up expenditures at such a rate that Chicago had its troubles, starting some years ago and continuing still. Chicago, like many other cities, sold tax anticipation warrants to cover expenses before tax collection dates. In 1928 the city borrowed $228,000,000 in this fashion. In 1929 the banks refused to risk another such loan. The taxpayers, angry at extravagance, had gone to court and had succeeded in having assessments for 1927 set aside.

Unable to collect more than a fraction of its taxes in 1928 and 1929, Chicago was unable to meet pay rolls. For more than three years municipal employees there have been in straits, the school teachers, firemen, policemen, street cleaners and nearly all the rest of the city's 40,000 workers finding their pay held up again and again.

At one time in 1929 coal dealers, whose bills were long unpaid, refused to deliver coal to schools until they received some money on account. At the present time of depression Chicago's

Unemployment brings on a cut in purchasing which forces more men from jobs which cuts down buying power and thus effects further firing of employees... the vicious cycle of "red lines make bread lines make red lines make... etc." being thus stimulated and continued

Wages are the foundation of this credit. If the volume of consumer credit increases, the safety of creditors must be protected by a growing volume of wages.

Other forms of credit also depend on wages. A business firm borrows against future sales. If it produces a consumer product, its sales are directly affected by workers' buying power. If it is in the producer-goods field, its sales are affected indirectly by the total volume of business transactions of which workers' buying forms an important part. Because credit is the foundation of our modern business structure, its basis must be of unquestionable stability; otherwise the whole edifice crumbles. A stable and increasing volume of wage purchasing power is the rock bottom on which this structure is built.

As a nation, we have not yet realized how much we depend on wage earners and small salaried workers as customers for our industries. We have in the United States 30,000,000 wage earners and about 9,000,000 salaried workers. Wage and small salaried workers—and this includes none receiving more than $5,000 a year—receive 54 per cent of the total national income. But they actually spend far more than 54 per cent of all income spent to buy the consumer products of our industries. For, with their families, wage and small salaried workers form 83 per cent of our entire population. Their physical need alone—food, clothing and housing—is the great primary demand on our consumer industries; their need for recreation—moving pictures, automobiles, radios—has been an immense builder of American industry in the last 10 years; their need for transportation and communication has kept street car lines running, started scores of new bus lines, sold two million home telephones in the last decade.

America came out of the world war with a producing mechanism geared to war demands. During war years we had concentrated on production; our best scientific skill had been turned to create vast supplies of goods for an insatiable European market.

But with the end of the war, the market disappeared. Our production machine was adapted to the home market. We found it profitable to manufacture in mass for millions of home buyers. Mass production implies mass buying and the masses of our people are wage and small salaried workers.

In the decade from 1919 to 1929, the rising standard of living and the billions of dollars' worth of goods bought by our workers was the very root of our increasing industrial activity and growing prosperity. In 1919, very few wage earners owned automobiles; telephones in workers' homes were almost unknown; radios were hardly in existence, and comparatively few workers' homes were even wired for electricity. The motion picture industry was in its infancy. In 1930, at least 13,000,000 wage earner families owned cars; at least 10,000,000 workers' homes were wired for electricity; 2,500,000 telephones and 2,000,000 radio sets were installed in homes of wage earners. There are over 20,000 motion picture theatres today, with an estimated attendance of over 15,000,000 persons, and the bulk of their customers are wage earners.

Thus wage earner buying has built up key industries in the past decade. The automobile industry has been the leader in our era of industrial growth; it is the largest customer for the products of seven other industries: gasoline and oil, steel, rubber, lead, plate glass, nickel and its growth has meant increasing production in all these fields. The majority of all passenger automobiles in use today (57 per cent) are owned and operated by wage earners. As workers improved their standard of living, they moved to better homes. Millions of homes for wage earners were built in the years since 1921, and the building industry was another leader in the growth of industrial prosperity. Electric power, another leading industry, finds wage earners a most important group of domestic consumers. And the growth of clothing, food and furniture industries has also come with a rising standard of living for workers.

In this era of mass production, workers' buying is the keystone on which the arch of prosperity rests. If it fails, industry after industry must crumble, as we have seen in the past two years.

In 1931, the wage loss alone, as noted above, was $11,000,000,000; adding salaried workers the loss has been estimated at $18,000,000,000. Automobile production was less than half that of 1929, textile industries produced 17 per cent less, over 17,000 retail stores failed and over 2,000 manufacturing plants, and these defaults were due in large part to loss of workers' trade. Space does not permit to take the story further and show how these losses were carried back to producer industries. Suffice it to point out that loss of workers' buying had its crippling effect on our entire business and production mechanism.

The buying ability of the American people depends on two things: First, steady employment; Second, rising wage levels throughout industry, so that consumption may keep pace with our growing producing capacity.

Let us take first the problem of steady work. To keep men regularly employed twelve months of the year requires seasonal adjustments so that production will not run in peaks and valleys and call for large forces at one season and layoffs at another. Because of these seasonal variations in production, total wage payments in one of our greatest industries, automobiles, has sometimes varied by as much as $40,000,000 a month from the month of highest to that of lowest activity in one year. Wage payments in the low month were less than half those at the peak season. These huge changes in buying power have a very upsetting effect on business.

To overcome seasonal fluctuations is distinctly a business problem, which can be solved by good business management. Many firms have demonstrated that by careful study and planning, adjusting

(*Continued on next page*)

by WILLIAM GREEN,
President,
American Federation of Labor

make Red lines make Bread lines

Eight million unemployed; twelve million dependent on them for their livelihood; some twenty million people in want and suffering—nearly one-sixth of our population.

Let us leave for a moment the human aspects of this great problem while we consider its economic implications. For however much this colossal spectacle of human suffering may grip our emotions, we know that its ultimate solution must be economic. We cannot afford to let our reaction to it be purely emotional when the lives of human beings and the welfare of our nation are at stake. For only cool, clear headed thinking can furnish a basis for constructive action.

Probably one of the chief reasons why we have this great problem of unemployment is because business executives, in general, fail to realize its economic significance and to think of it as it is—a business problem of the first magnitude. In the measure that we approach unemployment as a business problem, we shall solve it.

An unemployed worker cannot buy; he cannot even borrow for any length of time to supply his need. He has no basis for credit. Therefore he cannot fulfill his normal creative function in the nation's economic life. Not only is he unable to satisfy his own needs; he cannot either take part in creating the wealth which supplies the needs of all, or in consuming his share of industry's product and so furnishing the market which is essential for industry's normal functioning.

Unemployment is a colossal economic waste. Taken on the productive side, the man power represented by those who are out of work at present would be more than enough to operate all our railroads, construct all our buildings, roads and streets, operate all our power houses, street railways and other public utilities, and in addition furnish the hired labor for all our farms. Is this modern efficiency, to throw away this enormous fund of human creative energy?

And unemployment means not only this loss of productive power, but what is more serious still at the present time, it destroys the market for industry's product. Business enterprises must sell their goods and services, if normal activity is to be restored. And with the market drastically cut as it is at present, factories have closed, stores gone bankrupt, jobbers and wholesalers gone out of business, creditors have found themselves loaded with bad debts and they too have been swept down in the general debacle.

Income losses of wage earners alone this past year have amounted to $11,000,000,000, compared with 1929 levels. This loss alone has cut the total sales of all our retail stores by 16 per cent, and has resulted in larger inroads still on the business of factories which supply producers' and consumers' goods. In fact, the destruction of business which has resulted from this wage loss is almost incalculable.

Thus, to take 8,000,000 men out of their normal economic function of producing and consuming means catastrophe for our business life. The wage loss of all wage earners this year has taken more money out of normal trade channels than the losses from all bank failures, plus the losses from all business failures, plus the loss which would result if our entire export trade were destroyed.

Even in normal times, unemployment involves huge business losses. For in 1929, our year of greatest prosperity, unemployment averaged 2,400,000, according to reliable estimates. And the loss of potential wealth, represented by the wages of these workers at average rates, approaches $3,000,000,000.

That is why unemployment is of major significance to business men.

Particularly in the field of credit and financing, unemployment has dire and far reaching effects. Consumer credit has played an important part in the amazing growth of our industrial production in the last years. Installment sales have made dreams a reality for many a worker with limited income, and because he could crystallize future income into a set of furniture, an automobile, a radio set, he has budgeted his earnings and bought larger quantities of goods. Thus the consumer credit outstanding has grown to enormous volumes and it is estimated that in prosperous years, Americans buy some $6,000,000,000 worth of goods on installment, not to count the huge amounts carried in charge accounts in stores and other forms of credit.

Unless this huge volume of credit is on a sound and stable basis, incalculable harm results. Credit is a vitalizing factor in our entire industrial system. Consumer credit stimulates buying and increases industrial activity. It has added enormously to the volume of our industrial production in recent years. Business has come to depend on sales made through this form of credit. If its normal flow is interrupted because men are thrown out of work, and if workers who have bought goods on installment cannot fulfil their obligations, business takes huge losses and operations are thrown out of adjustment.

production and sales schedules, seasonal unemployment can be very much reduced and in many cases practically eliminated. On the Canadian National Railroad such a plan was worked out by the management in cooperation with the trade unions in the railway repair shops. Work in these shops had been highly seasonal because of the heavy demands on equipment in grain carrying seasons. But by planning the work schedules so that non-rush work was kept for dull seasons, and all hands were ready to handle the rush jobs at peak periods, and by other stabilizing measures, it was possible to keep a normal work force steadily employed throughout the year. Thus by regularizing employment the sum of $150 a year was saved for every worker on the road and added to his wages.

Canadian National workers would be exceedingly good credit "risks"! Such a stabilization of work, or at least a plan which provided for unemployment payments in dull seasons like that in the garment industries, would be possible in almost any firm willing to give the necessary effort to make it practical. For it has been successfully tried in extremely seasonal industries.

Another type of unemployment however is particularly subtle and far reaching in its effects, the so-called technological unemployment. We are prone to think of unemployment as the result of business depression, although in our year of greatest industrial activity, 1929, some 2,400,000 workers were unemployed. With the introduction of new machinery and labor saving devices in our industries, work time has been greatly reduced. Workers were no longer needed and they were laid off. In manufacturing alone, from 1919 to 1929, we increased production by 42 per cent, but we actually reduced the number of men needed and laid off 200,000 in these ten years!

In 1929, two men were doing work which required three ten years before! "Productivity" or producing power per man had increased by 50 per cent. Similarly productivity increased on railroads and 362,000 employees lost their jobs; in coal mines, productivity increased 23 per cent and 100,000 more were laid off; it is estimated that agricultural machinery sent 800,000 farm workers to look for jobs. In industry as a whole, we estimate that unemployment increased by approximately 1,000,000 from 1920 to 1929, due to these labor saving devices.

This is a very serious problem—1,000,000 workers thrown out of work, without income, a charge on society because our industries are so efficient. But are they really efficient if they cannot adjust so as to keep these men at work? Where does the trouble lie?

It is mainly a question of adjustment. Many of our leading thinkers have heralded the coming of the machine in industry because they said, as work time was shortened, men would have more leisure for creative pursuits and for education. But actually, leisure has hardly increased at all with this huge shortening of the work process. In manufacturing, for instance, the average work week was 52 hours in 1919. In 1929, work which took 52 hours in 1919 could be done in 34 hours, by the same number of men. But work hours were shortened only to 50 a week in these ten years. In other words, only two of the 18 hours a week saved by machines were given to workers in the form of leisure. Consequently, instead of leisure we have unemployment.

Careful estimates show that if every man and woman who wants work is to have a job in the winter of 1931-32, there will be only 35 hours a week for each. There is at present no more work than this to be done in the United States. It can all be accomplished in a five day week of seven hour days, if all those who need work are to be employed.

Is not this a clue to the problem? When all is said and done do we not come down to this fundamental fact: We have shortened work time by labor saving machinery, we must adjust work hours to fit. Is there any other sound way out from an economic point of view?

Already many firms see that it is better for the nation as a whole to have our 30,000,000 wage earners all at work for a 35 hour week, than 22,000,000 working a 48 hour week and 8,000,000 unemployed. Dupont has adopted the six hour day for 10,000 workers; the Kellogg Company has established it in their plant; 673 industrial plants are working permanently on a five day week basis. And the movement is spreading to other plants.

This movement is in keeping with historical development as far back as we have records. Back in 1840, work hours for wage earners actually averaged over 70 a week. But gradually through the years they were reduced by trade union activity and the improvement of efficiency until in 1890, 50 years later, we find men working only 58 hours a week on the average—a gain of over 12 hours' leisure per week. From 1890 to 1920 the gain in leisure was 8 hours a week, and the average work week for all industry was 50 hours (hours in manufacturing were slightly longer as noted above). That is, an average leisure gain of nearly 3 hours a week for each decade. But in the decade since 1920 the gain has been only 1 hour a week, and the average work week for all industry in 1930 was about 49 hours.

A large part of our present unemployment problem is due to this slowing down in the normal growth of leisure at a time when new machinery was reducing the necessary work time at a pace never before dreamed of. For in the last ten years, work time required per worker per unit of product in manufacturing was reduced three times as fast as the average for the two previous decades.

Clearly the reduction of work hours is an essential adjustment. The time is more than ripe for a universal movement for a five day week and a seven hour day.

Such a movement could eliminate the technological unemployment which developed in the last decade. It is more than ever important because technical changes have been taking place rapidly during this depression and we will emerge from this depression with a greater residue of technological unemployment than ever before.

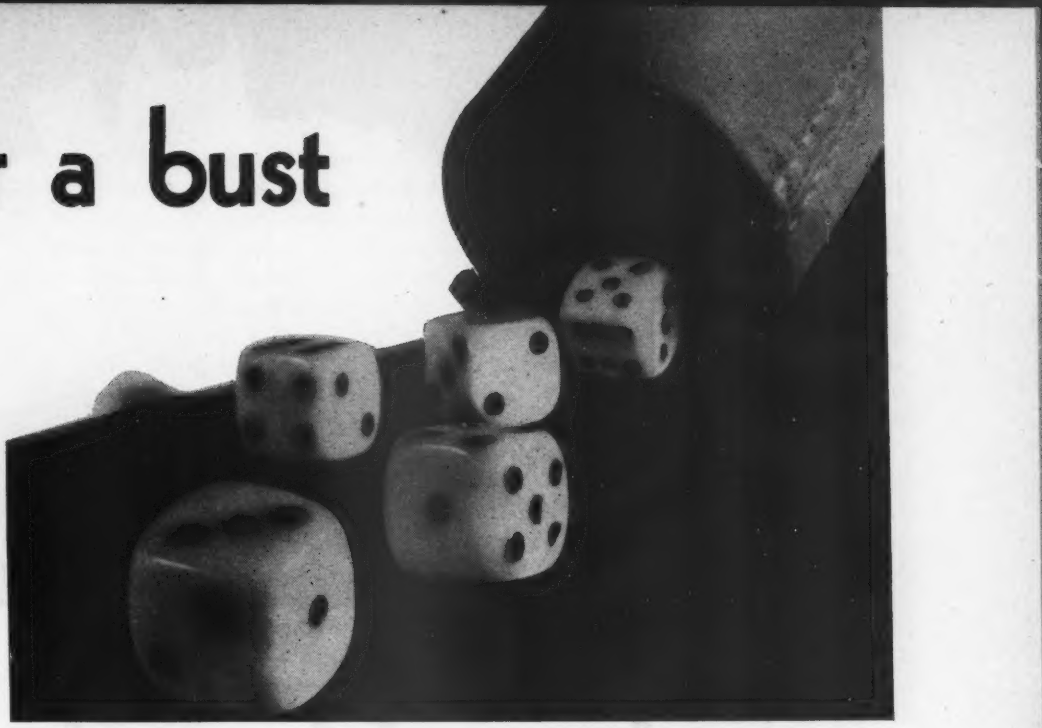
(*Continued on page 43*)

The A. F. of L. platform:

Maintain wages.
Shorten work hours.
Assure employment to minimum work forces.
Each employer to take on additional workers.
Create work through public building.
Strengthen employment agencies.
Keep young persons in school to prevent their taking jobs from older men and women.
Preference for workers with dependents.
Financial relief from public and private funds.

Buying for a bust

by R. A. COLLITON, Director,
Credit Interchange Bureaus,
N. A. C. M.



You can't gamble with credit information . . . it must be accurate, down-to-date.

The general business situation of today is made to order for the commercial crook. That promoters of commercial fraud are not slow in taking advantage of this—their opportunity—is obvious from the number of crooked schemes now being uncovered. Each day brings news of new ones.

Regrettable it is that this is true. It might be construed as evidence that the unusually successful work of the Fraud Prevention Department of the National Association of Credit Men in bringing perpetrators of fraud to justice has not been effective as a deterrent to this type of crime. That, however, is not the fact. Quite to the contrary, the work of that Department has been a tremendous influence in discouraging the activities of these parasites on business. If this were not true, the number of frauds now being promoted would be increased many-fold, for conditions are ripe for the commercial crook.

Commercial fraud in its basic purpose differs not at all from crimes such as burglary, hold-ups, picking pockets, or second-story work. The intent is "Easy Money." Each community maintains a police force as a protection against all of these various crooks; yet, the citizens of those communities do not relax in their precautions simply because of the existence of the police. It would be absurd indeed if, depending solely upon the police, business organizations, banks, and householders were to leave their doors open, their safes unlocked, their money and merchandise lying on the counter, or their jewels on the front door step. Assuredly they would be entitled to little sympathy if they were victims of the crook.

Certainly, the credit fraternity would not care to be accused of like negligence in the case of the commercial crook! Would it not be well then to analyze this problem of commercial fraud, and determine what precautionary measures might now be lacking and what, if any, further precautions might be taken by creditors against the commercial crook and the financial losses inevitably resulting from any dealings with him?

The purpose of commercial fraud is "Easy Money." Destroy the opportunity for profit, and the fraud automatically disappears. Can that be done? "Easy Money" in commercial fraud is dependent upon the securing of merchandise on credit for which full payment will not be made, and disposing of that merchandise at some later date for cash. The problem then is a simple one. Is it possible to stop deliveries of merchandise on credit to commercial crooks?

Despite any belief to the contrary, an observation of numerous "buying-for-a-bust" schemes suggests that this is not only possible but entirely feasible. These observations further suggest that the utter simplicity of the ordinary "buying-for-a-bust" scheme is probably the principal reason for its success, in that creditors view the combating of this type of crime as a difficult and mysterious procedure instead of recognizing its simplicity and taking the simple steps which would not only protect them as individuals, but would eliminate the "buying-for-a-bust" crook from business.

So far as the plan for securing merchandise on credit is concerned, commercial frauds, with few exceptions, are all of a single pattern. To illustrate how it is done, one case will serve as well as another. Therefore, follow the brief career of a disciple of fraud who, because of his activity, is introduced forthwith as "Mr. Commercial Burglar." Read the story of his activities, and consider how his schemes could have been defeated.

Observe first Mr. Commercial Burglar's method of getting merchandise on credit. No trouble there; just place the orders. In fact, Mr. Commercial Burglar did more than place the orders. He apparently decided that, despite warnings to the contrary, business and pleasure could be very profitably and pleasantly mixed. He, therefore, went to market, was wined, dined, and saw the night life—to the detriment of the entertainment accounts of his victims. Here is Mr. Commercial Burglar's purchase record. The word "purchase" is used not accurately but descriptively.

For the first eight months of the calendar year—January to August—his monthly purchases have averaged $49,800.00.

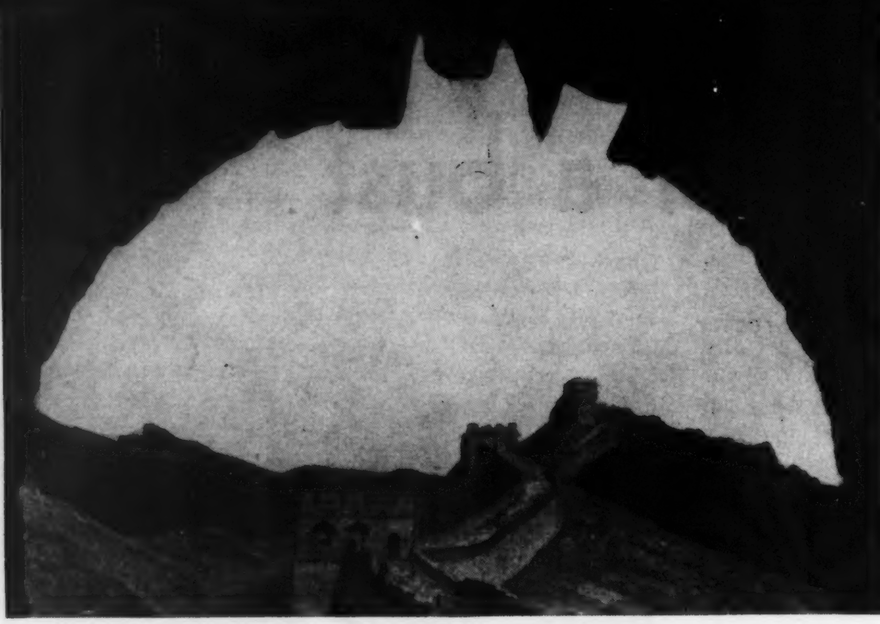
His purchases for September are	$109,000.00
His purchases for October are	265,000.00
His purchases for November are	28,000.00

This merchandise is not to be paid for; otherwise, there would be no profit for Mr. Commercial Burglar. Here is his Accounts Payable record, as taken from an audit after his failure:

January 31, 1931 . . . . $	20.00
July 31, 1931	26,000.00
August 31, 1931	77,000.00
September 30, 1931 . .	136,000.00
October 31, 1931	338,000.00
November 30, 1931 . .	410,000.00

Mr. Commercial Burglar's buying spree has covered the months of September and October. With the coming of November, he finds himself in possession of $410,000.00 worth of merchandise—all unpaid for. Sixty days have elapsed. His creditors are beginning to bother him; his game is becoming generally known. The final act takes place.

(*Continued on page* 30)



Creditor tariffs

An analysis of the tariff walls of creditor nations

by DR. MAX WINKLER
Vice-Pres., Bertron Griscom Co.
New York.

Almost two thousand five hundred years ago, in the year 509 B.C. we read of a commercial treaty between Rome and Carthage, according to which the former agrees to renounce all commerce with lands lying beyond the "charming promontory" and that trade with Sicily may be carried on without restriction by each of the contracting parties. Rome is further privileged to trade with Carthage, Sardinia and the Lybian capital, but only under the supervision of government officials who "upon payment of the proper tariff" would guarantee the purchase price of the article or articles in question.

We also read that, sixteen years later, in 493 B.C., Rome, by virtue of the *Foedus Cassianum* granted to all members of the Latin Confederacy *commercium et connubium*, that is, free trade and free residence within the Confederacy. Later on, trade treaties and commercial agreements were entered into with other neighboring countries. It would appear that Rome, even at the height of her grandeur, was not what one might term today a protectionist country. Rome was the financial center of the world as far as the world was then known, and the *Forum Romanum* played in all probability as important a rôle then as does the New York Stock Exchange today. It was in Rome where the financial needs of her weaker neighbors were taken care of, and Rome was receiving from all tribute, or what we might today call reparations.

Throughout the Middle Ages, the levying of import and export duties does not appear to have been general. Venice, for example, obtained by virtue of a commercial treaty concluded in 1082 free trading privileges throughout the Byzantine Empire. However, even other cities which had not entered into such trade agreements paid duties varying between only 2 per cent and 12 per cent of the value of the article in question.

A little over two centuries later, in 1303, England enacts the *Carta Mercatoria* by which all foreigners are granted free merchandising privileges and free residence. Germany, on the other hand, or rather that part of Europe which constituted pre-war Germany, levied rigidly protective rates on both imports and exports, especially on cattle, grain, lumber and metals. The importation of certain commodities was either prohibited altogether, or the levy was so high as to render import practically impossible. Whenever the home supply was merely sufficient to take care of the demand, the export of food-stuffs was completely interdicted. Austria at one time prohibited the importation of tin on the grounds that domestic production was not readily marketable within the country.

A little over 264 years ago, England became a distinctly protectionist country, for we read that tariff "took on him the general Management of Commerce on the 18th of September, 1664." For almost half a century, England "enjoyed" the benefits of a protective tariff. The abolition of duties and the introduction of free trade is related in a very entertaining brochure published in London in 1713, and ascribed to Daniel Defoe, although some are of the belief that Joseph Addison was the author. I refer to "The Late Tryal and Conviction of Count Tariff," wherein Goodman Fact as plaintiff presents the following charges against the "Count":

1. That the said Count had given in false and fraudulent reports in the name of the plaintiff.

2. That the said Count had tampered with the said plaintiff and made use of many indirect methods to bring him over to his party.

3. That the said Count had willfully and knowingly traduced the said plaintiff, having misrepresented him in many cunningly-devised speeches, as a person in the French interest.

4. That the said Count had averred in the presence of above five hundred persons, that he had heard the plaintiff speak in derogation of the Portuguese, Spaniards, Italians, Hollanders, and others; who were the persons whom the said plaintiff had always favored in his discourse, and whom he should always continue to favor.

5. That the said Count had given a very disadvantageous relation of three great farms which had long flourished under the Care and Superintendency of the plaintiff.

6. That he would have obliged the owners of the said farms to buy up many commodities which grew upon their own lands. That he would have taken away the labor from the tenants, and put it into the hands of strangers. That he would have lessened and destroyed the produce of the said farms. That by these and many other wicked devices he would have starved many honest day-laborers; have impoverished the owner; and have filled his farms with beggars, etc.

7. That the said Count had either sunk or mislaid several books, papers, and receipts by which the said plaintiff might soon have found means to vindicate himself from such calumnies, aspersions, and misrepresentations.

We might have welcomed a presentation of the defendant's case, although in the opinion of the author, the "Count" apparently had no case. We, therefore, find the following interesting outcome of the trial: "After a full (sic) hearing on both sides, Count Tariff was cast and Goodman Fact got his cause . . . . It is incredible how general a joy Goodman Fact's success created in the City of London; there was nothing to be seen or heard the next day, but shaking of hands, congratulations, reflections on the danger they had escaped; and gratitude to those who had delivered them from it."

Although it would be of interest to set forth in detail the tariff history during the Middle Ages, and during the fifteenth, sixteenth and seventeenth centuries, of the early creditor nations, such as Venice and Florence and Genoa, of Portugal and Holland, of Austria and England, I shall content myself with referring the reader to the classic studies on tariff by Schmoller, to those by L. Chatin-Ollier in his *La Politique Douanière*, by Ludwig Lang in his *Hundert Jahre Zollpolitik*, by Geoffrey Drage in his *The Imperial Organization of Trade*, and to the excellent monograph on the tariff policies of Holland by G. W. J. Bruins in his *Die Grundlagen der niederlaendischen Freihandelspolitik und die jetzige Wirtschaftskrise.*

A somewhat detailed discussion of the tariff policy of the leading creditor nations during the nineteenth century and the early part of the current century, in the course of which government borrowing began to assume a rather important aspect, might possibly prove of more immediate value. The countries which would have to be taken into consideration are especially Great Britain, France, Germany, and last, but by no means least, the United States.

England may be said to have become a creditor nation *par excellence* after the Napoleonic Wars, when the classic center of finance was transfered to London from Amsterdam, whither it had moved from Nuremberg and Augsberg. Towards the end of the eighteenth century, England imposed, *inter alia*, heavy duties on grain by virtue of the so-called Corn Laws. This happened in 1773. Thirteen years later, an attempt was made to modify the rigidly protective legislation of the eighteenth century. In the course of that year, a commercial treaty with France was entered into which provided for large reduction of duties in both countries. As a result of the outbreak of the war with France, this treaty was swept away. Between 1789 and 1815, England was distinctly protectionist. The more important legislative measures pertaining to tariff adopted in subsequent years are chronologically arranged herewith:

Year	
1816	Importation of wheat prohibited when price fell below 80 shillings.
1822	Level reduced to 70 shillings.
1824–25	Duties reduced on raw materials, especially wool, raw silk, flax; also on iron and manufactured goods.
1828	Duty on grain regulated in accordance with price.
1830	Agitation against Corn Laws led by Cobden and Bright.
1842	Marked reduction of duties on large number of articles. Income tax introduced to raise revenues lost through reduction of import duties.
1846	Corn Laws repealed.
1853	Further reduction in duties.
1860	Last remnants of protective duties disappear — Commercial Treaty signed with France.
1872	Sugar admitted free of duty.

Generally speaking, England has adhered to the principle of free trade more than any other power. During the above mentioned period, the financial needs of nations all over the world were taken care of in London. The countries whose bonds were underwritten and sold in the London market were, as a rule, but little developed. The service on their debt to England proved occasionally a heavy burden on their treasuries. Defaults were made with great frequency. It is probably because of these numerous defaults that Manes calls the nineteenth century the "*Age of Financial Pathology.*" Yet it is within reason to assert that defaults would have been even more numerous if Britain had insisted upon the prompt payment of the debts due her, in specie. There was not enough of the yellow metal to take care of all requirements.

Invisible trade between England and most of her debtor countries was negligible. Nor was it feasible to introduce internal bond and stock issues of the countries in question into England, which very often viewed with considerable skepticism even the external bonds of these countries. Goods were therefore the only means at the disposal of debtor nations, of discharging their obligations to England. It may, however, not be amiss to state that the English might possibly have acted differently if these debtor countries had been in a position to flood the English markets with manufactured goods.

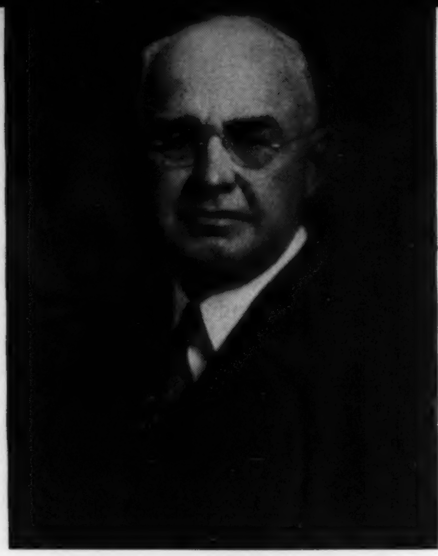
The tariff policy of France throughout the greater part of the eighteenth century was also restrictive. A breach in the system was effected in 1786 by the signing of a commercial treaty with England, referred to above. Between 1789 and 1815, the importation of manufactured articles from all foreign countries was prohibited. In 1860, a new commercial treaty was arranged with England, and a reduction ranging between 10 per cent and 15 per cent was effected on most manufactured articles. During the following six years, commercial treaties were entered into with a number of foreign countries, including Belgium, Germany, Italy, Switzerland, Sweden, Norway, Holland Spain and Austria. Thus, a network of treaties was spread practically all over the Continent leading to marked freedom of trade and opening an era of freer international exchange.

In 1881, France effected a new tariff policy and, eleven years later, a new and more highly protective general tariff was established, with high duties on agricultural products and raw materials, as well as on manufactured goods, on grain, animals, meats and a host of other products.

It appears somewhat curious that protection in France almost coincides with the beginning of the flotation of large foreign loans, notably Russian and Bal-

(*Continued on page 37*)

A. J. Peoples, Detroit Chairman



O. A. Montgomery, Secretary-Manager

Press on to Detroit!

by BRACE BENNITT,
N. A. C. M. Convention Director

The 37th Annual Convention of the National Association of Credit Men, and the second Credit Congress of Industry, will be held in Detroit, Michigan, during the week of June 20th. From Boston, the seat of Colonial culture, where the N. A. C. M. Convention was held last year, we move westward to this country's great automobile center. It has been said by many economists that both the beginning and end of this country's prosperity reposes in the great automotive manufacturing area in and around Detroit. The effect of the automobile industry upon every phase of American business cannot be minimized. From an economic viewpoint, there is probably no city in the country that offers such significant interest to convention delegates as Detroit.

N. A. C. M. Conventions were held in Detroit in 1898 and 1919. Those members who attended the 1919 Convention recall the fine hospitality of our hosts and will look forward with renewed interest to the Association's conclave in Detroit this June.

As Convention Director, I am particularly fortunate in having the fine leadership of Mr. A. J. Peoples as the General Convention Chairman. Mr. Peoples is a National Director, a past National Vice-President, and was General Convention Chairman of the 1919 meeting. In his business work, Mr. Peoples is Vice-President and General Manager of the American Brass Company. His previous convention experience, his intense interest in and loyalty to the Association, and his outstanding executive leadership, are enough to guarantee a successful and outstanding Convention in Detroit.

Mr. O. A. Montgomery, Secretary-Manager of the Detroit Association, and President of the Association's Secretarial Council, is devoting his tireless energies and contagious enthusiasm to every phase of the Convention activities. The Convention Committees are already organized.

After several meetings with the Detroit membership, I can assure the delegates to our Detroit meeting that the hospitality and thoughtfulness of our hosts will be unexcelled. The other Michigan Associations are keenly interested in the Convention and have assured us of their active participation and co-operation in making this a Michigan as well as a Detroit Convention.

Brace Bennitt

Those who attended the Boston Convention last year will be glad to learn that the Statler Hotel again will be the convention headquarters. All sessions are scheduled in the headquarters hotel where we expect to house all delegates. The comfortable, dignified and economical facilities of the Statler Hotel will make you a "pleasant convention home" for the week you are in Detroit.

The program is being developed and completed as rapidly as possible, several outstanding speakers having already accepted our invitation to address the convention. At an early date when the program is nearly completed, the names of speakers and subjects will be given to the membership through the pages of CREDIT AND FINANCIAL MANAGEMENT.

The Credit Congress of Industry will be held on Tuesday this year instead of meeting on Friday as it did in Boston. This will enable all of the Association's active trade and credit groups to meet early in the week and thus follow their main lines of group interest and activities throughout the remainder of the convention period.

Among the headline speakers will be a member of the President's Cabinet, a nationally known economist, an outstanding representative of the automobile industry, an authority on commercial fraud and crime, and speakers who will discuss the current problems of fi-

(*Continued on page 45*)

$500,000,000. fire loss / 2

A major problem in simple division. Our $500,000,000. annual fire loss can be halved by the nation-wide fire prevention campaign now underway.

The $500,000,000 annual fire waste in this country, even in prosperous times, is a vast burden upon American business. The title of this article sounds the keynote for the 1932 objective in cutting down this fire waste. A 50% reduction in this $500,000,000 waste item will do much to ease our economic strain and contribute to business recovery.

The National Association of Credit Men through the Secretary of its National Fire Insurance and Fire Prevention Committee, has taken the leadership in promulgating a continuous fire prevention program throughout 1932. In years past we have had Fire Prevention Week in this country, but the leading insurance companies, the National Association of Credit Men, and other cooperative organizations believe that this program should be continuous throughout the year. There are many economic considerations involved in the sound and far-reaching program sponsored by the Association. The Association, with 137 offices throughout the country and with a Fire Prevention Committee functioning in each of these associations will form the nucleus for the 1932 drive to reduce and eliminate fire waste.

Every business and industrial fire throws innumerable employees out of work for an indefinite period and contributes to our employment problem. There is an average of 10,000 lives lost each year through incendiary causes. If the loss of human life can be cut down by as much as 50% a significant social achievement will be recorded in favor of the 1932 Fire Prevention program.

The business man must also remember that a measurable decrease in fire losses will enable him to carry his fire insurance policies at a lower premium. One of the significant problems of the credit executive is to make sure that each of his debtors is covered with sound and adequate insurance. Even though the debtor is adequately covered and the insurance company pays the losses entailed by the fire, the creditor loses a good customer for a long period and quite often altogether. A substantial reduction in fire waste and fire loss will be a strong contribution to the credit stability of the nation.

In an address made last year before the National Fire Waste Council meeting in Washington, a speaker gave sound proof that of about 100 industrial buildings which are burned to ashes, 43 are never rebuilt. This means, of course, that a corresponding number of commercial organizations failed to continue in business. Our annual fire loss places a tax on the American people of approximately $4.00 per capita. This $500,000,000 fire waste only takes into account the value of buildings and property destroyed.

The moratorium promulgated by the President several months ago on inter-allied debts involved amounts which in principal and interest equalled about $250,000,000. This sum is only one-half of the annual fire loss in this country.

The British Labor Cabinet fell in England because they needed $500,000,000 on the income side to balance the British budget, yet the total fire waste of this country is of as large proportions.

This National Fire Prevention program should place particular emphasis on prevention activities in the principal cities of this country. It is estimated that an average of only 1% of the total number of fires is responsible for 60% of the country's total fire loss.

Additional figures such as these quoted in the last three paragraphs could be presented to bring home to you the paramount significance of this National Fire Prevention program, which is being sponsored by the Association.

On February 1st the Executive Manager of the National Association of Credit Men sent a letter to the Governor of each state asking him to make an appeal to the people of his state to exert every precaution against fire dangers and hazards. During March the Mayors of all the largest cities will be asked to make a similar appeal to the citizenry of their city. The local association Fire Prevention committees will work closely with Fire Department officials in each city to bring a greater measure of vigilance in fire protection activities.

All business, civic, patriotic and fraternal organizations in each city will be asked to cooperate in this nation-wide program. Fire Prevention nights and meetings will be held in various organizations throughout the country in order to emphasize more effectively the concrete steps that must be taken to cut our $500,000,000 fire waste in two. The press of the country will be asked to carry the educational news stories about this program, as well as point out steps that should be taken by every individual in combatting and preventing fire losses.

Unrelenting vigilance must be the keynote of this campaign. Carelessness, misunderstanding on the part of employees and physical fire hazards contribute each year to this gigantic waste.

(Continued on page 43)

Against the sugar grain

Fourth of the series of basic commodity studies by GILBERT PARKER HAYES

Little drops of water, little grains of sand make the mighty ocean and the mighty land—so goes an old hymn. And little grains of sugar, in excess, make the mighty land much trouble. Witness, for proof, the troubles of the various sugar raising countries today, their attempts at control of the product, and the seeming failure of these attempts, notably the Chadbourne plan for sugar control which was signed last Spring.

Of the various plans for the curtailment of commodity crops and the influencing of a rise in the price level, none has yet succeeded to any degree of the success its adherents had hoped for. Cotton, wheat, copper, rubber, coffee, tin, oil, and sugar have gone or are going the way of all plans aimed at the forced stimulation of prices by curtailment of supply until the prevailing low price levels have risen to a satisfactorily profitable level.

Just what has brought the international sugar industry to such a low state of profitable activity? Blame it, like most everything else, on the war years of 1914 to 1918 and you are as close to the most fundamental reason as you can arrive.

Europe before the war was an extensive cultivator of the sugar beet. Europe is now a big factor in the world's beet sugar production, a position which she has regained since the Armistice. During the four year span when armies were the sole concern of the European nations, the sugar beets received less and less attention. But sugar is in the nature of a necessity in our times and so it came about that reduced European production stimulated the growth of sugar cane in other parts of the world, notably Java and Cuba. In Cuba alone production rose from 2.5 million to 4 million tons in the war years. And yet with all this increased output prices soared to unknown heights with 22½ cents a pound being recorded in the New York market. That brought on a giddy prosperity.

For over five years more sugar had been produced each year and in that time prices had continued to rise with few interruptions. Surely then sugar was the "Open Sesame" to wealth. Grow more and make more money! The reasoning and logic are typical of prosperity years—we in the U. S. A. have not yet forgotten our own variety of foolish inflation that ended with an abrupt thud in 1929. And what was true in Cuba was also true in Formosa, in Java, in India, wherever the soil and the climate were conducive to sugar raising.

In this table the rise in world production is best told. The figures are expressed in tons of 2,240 pounds, being calculated by "Facts About Sugar":

1901-02	10,995,113
1902-03	9,906,352
1903-04	10,307,504
1904-05	9,531,020
1905-06	13,950,992
1906-07	14,486,073
1907-08	13,914,994
1908-09	14,543,939
1909-10	14,917,530
1910-11	16,981,880
1911-12	15,887,230
1912-13	18,208,814
1913-14	18,667,399
1914-15	18,532,107
1915-16	16,869,894
1916-17	17,104,862
1917-18	17,381,831
1918-19	15,801,594
1919-20	15,495,142
1920-21	16,652,775
1921-22	17,649,687
1922-23	18,359,484
1923-24	20,096,012
1924-25	23,687,379
1925-26	24,614,152
1926-27	23,757,667
1927-28	25,319,018
1928-29	27,340,763
1929-30	26,909,937
1930-31	27,989,245

From 1920 on the price of sugar began to decline as the result of the increasing supplies but it was not until 1925 that the first pinch was felt—and that in Cuba. Production in Europe of beet sugar was now protected by duties and tariffs and the United States in 1921 imposed higher protective charges. In 1925 sugar hit the two cent level.

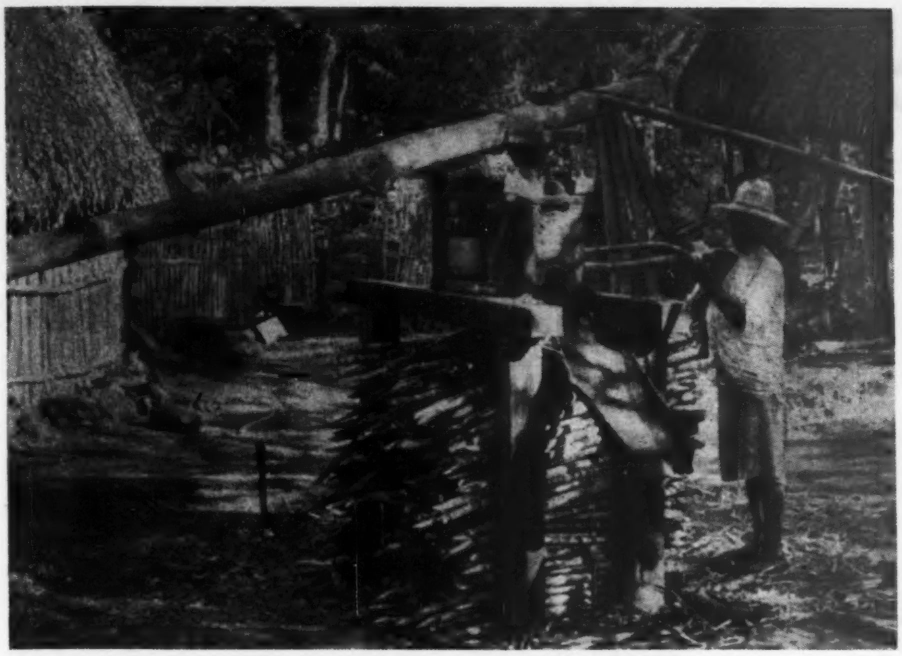
At that price over one-third of the Cuban sugar was being produced at a loss and so the Cubans appealed to their government for aid. Response in the form of a 10 per cent government-imposed curtailment of crops followed in Cuba in 1926, to be followed in 1927 and 1928 with further cuts and the formation of an export selling corporation—and still sugar stayed below 3 cents a pound! Cuba was restricting but others were not and in 1928 the Cubans quit restricting, not as a possible solution but as the gesture of a sick man who pushes the medicine aside resigned to feel as badly without it as with it.

Gradually the various producing countries came together to talk things over. But Java was the cause of trouble because her growers could produce and sell at a profit at the 2 cent level and so long as prices did not fall below it their books were "in the black" and they were disinterested in curtailment of production. Autumn 1930 saw prices in New York at a 1 cent level and 1.3 cents was the average for the rest of that year and for part of 1931. Now Java was interested in crop control and on December 8, 1930, a promise of a five-year restriction in Javan sugar exports to 2.2 million tons annually was obtained by the Chadbourne committee, which was headed and organized by Thomas L. Chadbourne, New York sugar magnate who had vast interests in Cuba.

Then the committee proceeded to a conference in Brussels with the European producers, Clifford L. James tells us in the "American Economic Review" for September, 1931. Germany objected to the European export quota based on a 15 per cent reduction of the 1929-30 exports. Germany exported only 235,000 tons of sugar in 1929-30, but an export surplus of 800,000 tons was anticipated for 1930-31. Since exports are essential to reparation payments, Germany insisted on a higher quota.

The European export quotas embodied in the final agreement imposed a five year limitation on sugar exports and a material reduction of the 1930-31 crop.

Apportionment of export quotas laid the foundation for a control of the world raw sugar supplies, but it did not complete the task. To make the sys-



Primitive sugar mill of days before overproduction was known.

tem effective, it was necessary to provide penalties for non-enforcement, to outline a price policy for the five-year period, and to establish an administrative body to oversee the actual operation of the plan.

For that purpose the committee in March, 1931, opened a general conference in Paris, at which the crucial issue was the price policy. Since the Javan producers had the lowest costs, they wanted the wholesale price fixed at 2 cents per pound. The Cuban interests objected to the price and the principle of a fixed price.

The resulting compromise stipulated that whenever the price of raw sugar rose to 2 cents per pound, a 5 per cent increase in all export quotas would be applied by an International Sugar Council. If the price reached 2¼ cents a further release of 2½ per cent. was left to the discretion of the council. If prices attained a 2½ cent level an additional 5 per cent. increase in export quotas was allowable unless the council had already granted the optional 2½ per cent. increase.

The administration of the five-year quota was placed in a permanent International Sugar Council located at The Hague. The final contract which embodied the export quotas, the price policy and the administrative mechanism was signed on May 9, 1931, at Brussels by representatives of producers of Cuba, Java, Germany, Poland, Czecho-Slovakia, Belgium and Hungary.

Whether or not the Chadbourne plan will gain ultimate success is questionable. It has many critics and considerable opposition but advance estimates of the world's sugar crop for 1931-32, "Facts About Sugar" reports, "foretell the greatest decline in production that ever has taken place in a single season. From 29,500,000 metric tons raw value in 1930-31 to 26,750,000 tons in 1931-32, which is the indicated prospect, is a drop of 2,750,000 tons, or 9.3 per cent.

"These figures present two points of special significance. One is the fact that over 2,000,000 tons of the decrease is concentrated in Europe and that it will have the effect of making that continent once more an importer on balance. The other is that production in 1931-32, for the first time in several years, will be below the world's requirements for consumption.

"Stocks on hand in the principal producing and consuming countries at the beginning of the 1931-32 crop year, on October 1, 1931, were larger than they had been twelve months earlier. If deduction is made of the stocks segregated under the international export agreement, however, available supplies from existing stocks were less than they had been at the earlier date.

"Statistically the position of sugar has improved to a remarkable degree within the past twelve months. Yet market prices have not responded. London quotations were nominally higher in mid-November than they were a year earlier, but because of the fall in the exchange value of the pound they actually were lower. In New York quotations on the two dates were identical.

"To find a change in the matter of production comparable to the one that has taken place this season it is necessary to go back to 1911, when unfavorable weather cut Europe's beet sugar output by nearly 2,000,000 tons. That change was reflected by an increase in New York quotations from 5.00 cents a pound on July 1 to 6.75 cents on September 15.

"The only deduction that can be drawn from the facts before us is that sentiment, not statistics, rules the sugar markets today, and that sentiment is still preponderantly defeatist."

And it is not too reassuring to read that consumption of sugar in this country last year was 3.54 per cent. less than in 1930, according to a preliminary estimate by Lamborn & Co. This places last year's consumption at 5,906,000 long tons of raw sugar, against 6,123,000 tons in 1930.

Nor is it comforting to hear that Cuba recently threatened abandonment of the Chadbourne sugar restriction plan unless other signatories of the pact made further cuts in their proposed production and exports.

This ultimatum, which was sent from the Cuban Sugar Institute at Havana to the International Sugar Institute in Paris, said clearly that Cuban producers feel that Java and other nations should come forward with additional sacrifices before Cuba will even consider reducing its 1932 quota of 3,061,000 tons.

Java, on the other hand, not only has refused to accede to reductions of 15 to 20 per cent. in export quotas demanded by Cuba, but insists Cuba cut her present crop to 2,300,000 tons.

Despite this apparent deadlock which looks as if disintegration of the Chadbourne plan were at hand, there still are elements in Cuba working for its continuance. Outstanding of these is the Cuban Export Corporation, which is largely controlled by New York banks. This group is pulling for a reduction in the Cuban crop to 2,300,000 tons.

Pressed by the Export Corporation on one side and the Cuban Institute on the other, President Machado decided to refer all data on the situation to the Cuban Department of Justice unless a speedy agreement is reached on the outside.

Aids for statistical

Fourth in the series of articles on credit calculus by HARRY G. ROMIG, research statistician.

In the previous articles on "Credit Calculus" we have been using average and standard deviation values.

At first we used the difference between the maximum and minimum values in a group of observations in determining the standard deviation. Later the exact equation and method of computation was given. It is the purpose of this article to present short methods and forms by which the two statistics, average and standard deviation, may be readily computed.

The methods to be presented must necessarily be divided into two classes:

(1) Short methods to be used by small firms or individuals who do not have computing machines and must therefore perform the computations by the ordinary arithmetical processes.

(2) Methods for those who have sufficient analysis work to warrant using computing machines such as Comptometer, which is an adding machine, and others of this type, which both add and multiply.

We will first present forms to be used for those in the first class together with general methods to be used by both classes.

Where a large number of values are given, for which the average and standard deviation are to be found, it is often helpful to classify these values in small groups, called cells, according to their numerical magnitudes. This introduces a slight error, but not enough error to warrant using the original data for the computations. In general, the number of cells used varies between 10 and 20. Having decided to classify the data into cells, the first question to be answered is, what boundaries shall be used for these cells?

The maximum and minimum values should be selected from the data and a cell width selected arbitrarily that will divide the numerical difference between the maximum and minimum values into between 10 and 20 cells. These cell boundaries must be so selected that none of the data will have values similar to the boundaries selected. Thus if the data are carried to two decimal places, the cell boundaries should be carried to three decimals, unless by chance in the last decimal results are only recorded to the nearest 5 or 0 value, when some intermediate value may be selected.

The data may now be classified into the selected cells by recording the number falling within any two boundaries in the same manner as votes are customarily counted. Having completed this part of the work, we will find that the number of observations at the two extreme values will be quite small in general and that the number of observations in the central cell will be quite large. It is customary to refer to the number falling within any cell as the frequency for that cell, f. The series of frequencies is known as a frequency distribution. The sum of the frequencies must equal the total number of observations in the original data, n.

The best method to follow now is to

SUBJECT: DAILY SALES PER CLERK — DATE: January 22, 1932

UNITS: DOLLARS ($) — **ANALYSIS SHEET** — COMPUTED BY: HGR

SOURCE: FIRM A — FORM 1 — CHECKED BY: HGR

CELL NO.	MID-CELL VALUES	TABULATION of FREQUENCIES f	CELL DEVIATION FROM $\bar{o}$ x	OBSERVED FREQUENCY f	xf	x^2f	FREQ. IN %
0	37.645		0	11	0	0	4.89
1	86.025		1	14	14	14	6.22
2	134.405		2	20	40	80	8.89
3	182.785		3	15	45	135	6.67
4	231.165		4	13	52	208	5.78
5	279.545		5	13	65	325	5.78
6	327.925		6	32	192	1152	14.22
7	376.305		7	6	42	294	2.67
8	424.685		8	21	168	1344	9.33
9	473.065		9	5	45	405	2.22
10	521.445		10	37	370	3700	16.44
11	569.825		11	9	99	1089	4.00
12	618.205		12	6	72	864	2.67
13	666.585		13	9	117	1521	4.00
14	714.965		14	4	56	784	1.78
15	763.345		15	4	60	900	1.78
16	811.725		16	3	48	768	1.33
17	860.105		17	1	17	289	..44
18	908.485		18	0	0	0	0
19	956.865		19	2	38	722	.89
20			20				
		SUMMATION	S =	225	1540	14594	100.00

CELL BOUNDARIES	CUMULATIVE % LESS THAN STATED BOUNDARY	CUM. % MORE THAN STATED BOUNDARY
13.455		100.00
61.835	4.89	9511
110.215	11.11	88.89
158.595	20.00	80.00
206.975	26.67	73.33
255.355	32.45	67.55
303.735	38.23	61.77
352.115	52.45	47.55
400.495	55.12	4488
448.875	64.45	35.55
497.255	66.67	33.33
545.635	83.11	16.89
594.015	87.11	12.89
642.395	89.78	10.22
690.775	93.78	6.22
739.155	95.56	.4.44
787.535	97.34	2.66
835.915	98.67	1.33
884.295	99.11	.89
932.675	99.11	.89
981.055	100.00	

MOMENTS ABOUT ORIGIN IN $\bar{o}$

TOTAL FREQUENCY, $Sf = n$

$${}_1m_1 = \frac{Sxf}{Sf} = \frac{1540}{225} = 6.844$$

$${}_1m_2 = \frac{Sx^2f}{Sf} = \frac{14594}{225} = 64.862222$$

SECOND MOMENT ABOUT MEAN FOR ARBITRARY CELLS 0, 1, 2, 3, ETC.

$$m_2 = {}_1m_2 - {}_1m_1^2 = 64.862222 - 46.840336 = 18.021886$$

m = UNITS PER CELL = 48.38

OBSERVED STATISTICS

$$M = \bar{o} + m\,{}_1m_1 = 37.645 + 48.38(6.844) = 368.76$$

$$s = m\sqrt{m_2} = 48.38(4.245) = 205.37$$

$$s_M = \frac{s}{\sqrt{n}} = \frac{205.37}{15} = 13.69$$

$$s_s = \frac{s}{\sqrt{2n}} = \frac{205.37}{21.2132} = 9.68$$

VARIATION LIMITS BASED ON OBSERVED STATISTICS

d = AVERAGE s. PROBABILITY = .9973 (NORMAL LAW)

$M \pm 3s$ = 368.76 ± 3(205.37) = 0 — 984.87

$M \pm 3s_M$ = 368.76 ± 3(13.69) = 327.69 — 409.83

$d \pm 3s_s$ = 205.37 ± 3(9.68) = 176.33 — 234.41

VARIATION LIMITS BASED ON EXPECTED STATISTICS

d' = AVERAGE s'. PROBABILITY = .9973 (NORMAL LAW)

$M' \pm 3s'$ = 400.00 ± 3(150.00) = 0 — 850.00

$M' \pm 3s'_M$ = 400.00 ± 3(10.00) = 370.00 — 430.00

$d' \pm 3s'_s$ = 150.00 ± 3(7.07) = 128.79 — 171.21

analyses

arbitrarily call the value of the midpoint of the cell having the smallest numerical boundary 0, call the mid-cell value of the succeeding cell 1, etc. Thus, if there are 16 cells in the distribution, the last cell will be called cell 15. To find the average, we multiply the number of observations in cell 0, f_0, by 0, recording a 0 value, multiply the number of observations in cell 1, f_1, by 1, recording the f_1 value, etc., finally multiplying the number of observations in the last cell, say f_{15}, by 15, recording the numerical value of $15f_{15}$. We next find the sum of these products, Sxf, where x varies from 0 to 15 in this case, and S is used to represent the summation of all the xf products. We also find the sum of the f values, Sf, which is the total number of observations recorded, n. Dividing Sxf by Sf or n gives the first moment about 0 in terms of the arbitrarily chosen number scale. Where m is the selected width of the cells, the average value is found by multiplying the first moment by m and adding this product to the actual mid-cell value of the cell, designated as the 0 cell.

The standard deviation is found in a similar manner. The first step is to find the second moment about the 0 value in the arbitrary scale system. This is done by multiplying the square of each of the cell values, 0, 1, 2, etc. by the value of the frequency f corresponding to that cell. Thus for cell 0 we have 0^2f_0, for cell 1 we have 1^2f_1, for cell 2 we have 2^2f_2, etc. The general term is x^2f. Again we find the sum of these products, Sx^2f. Dividing by Sf or n gives us the value of this second moment. To find the second moment about the average in terms of the arbitrary scale, we subtract the square of the value of the first moment, $(Sxf/Sf)^2$, previously found from the second moment above. The standard deviation in terms of the original units is found by extracting the square root of the second moment about the average found above and multiplying by the width of the cell, m.

The form to be used in this case is given in Figure 1 as Form 1. An additional column is given for recording frequency values in terms of per cent. The sum of the per cent values must equal 100. If these values are recorded they may be used in place of the actual f values in computing average and standard deviation values, in which case the value of Sf is 100. Since Sf is used as a divisor in two places, two divisions are eliminated by using this process. The last two columns are used to record the frequencies in per cent as cumulative values. Thus in the next to last column, if 1% is the frequency for cell 0, 5% for cell 1, 7% for cell 2, etc., 1% will be recorded for cell 0, 6% for cell 1, 13% for cell 2, etc., the value in the last cell for which a frequency is recorded will be 100%. In the last column will be recorded the same cumulative values only in reverse order, starting with the last cell and adding percentage values of each previous cell, proceeding from the bottom to the top, where the value for cell 0 will be 100%. These will be explained more in detail in a subsequent article. It is sufficient to say that the first procedure gives

(Continued on page 40)

SUBJECT: DAILY SALES PER CLERK
UNITS: DOLLARS ($)
SOURCE: FIRM B

ANALYSIS SHEET
FORM 2

DATE: January 22, 1932.
COMPUTED BY: H.G.R.
CHECKED BY: H.G.R.

OBSERVATION NUMBER	OBSERVED VALUE X	OBSERVED VALUE SQUARED X^2	OBSERVATION NUMBER	OBSERVED VALUE X	OBSERVED VALUE SQUARED X^2
1	176.50	31152.2500	26		
2	234.75	55107.5625	27		
3	147.84	21856.6656	28		
4	285.00	81225.0000	29		
5	410.35	168387.1225	30		
6	126.45	15989.6025	31		
7	378.90	143565.2100	32		
8	250.89	62945.7921	33		
9	156.44	24473.4736	34		
10	263.21	69279.5041	35		
11			36		
12			37		
13			38		
14			39		
15			40		
16			41		
17			42		
18			43		
19			44		
20			45		
21			46		
22			47		
23			48		
24			49		
25			50		
S=	2430.33	673982.1829	S=		

AVERAGE, $M = \frac{SX}{n} = \frac{2430.33}{10} = 243.03$

STD. DEV., $s = \sqrt{\frac{SX^2}{n} - M^2} = \sqrt{8333.1792} = 91.29$

NUMBER OF OBSERVATIONS $= n = 10$

$s_M = \frac{s_c}{\sqrt{n}} = \frac{102.07}{3.162} = 32.28$

$s_s = \frac{s}{\sqrt{2n}} = \frac{102.07}{4.4721} = 22.82$

$s_c = k_1 s = 1.1181(91.29)$. $d = \frac{1}{k_2} s_c = \frac{102.07}{[illegible]} = 94.18$

VARIATION LIMITS BASED ON OBSERVED STATISTICS
d = AVERAGE s. PROBABILITY = .9973 (NORMAL LAW)
$M \pm 3s_c = 243.03 \pm 3(102.07) = 0 - 549.24$
$M \pm 3s_M = 243.03 \pm 3(32.28) = 146.19 - 339.87$
$d \pm 3s_s = 94.18 \pm 3(22.82) = 25.72 - 162.64$

VARIATION LIMITS BASED ON EXPECTED STATISTICS
d' = AVERAGE s'. PROBABILITY = .9973 (NORMAL LAW)
$M' \pm 3s' = 250.00 \pm 3(80.00) = 10.00 - 490.00$
$M' \pm 3s'_M = 250.00 \pm 3(25.30) = 174.10 - 325.90$
$d' \pm 3s'_s = 73.81 \pm 3(17.89) = 20.14 - 127.48$

Nation-wide collection and sales conditions

What they are at present

The outlook for the near future

CREDIT AND FINANCIAL MANAGEMENT offers its regular monthly survey of collections and sales conditions. It is based upon reports from large cities throughout the country that are trade centers for their surrounding areas. The reports are the results of the daily experience of the leading wholesaling and manufacturing concerns operating from these trading centers. The two questions "Are people buying?" and "Are they paying?" are perhaps the most direct and immediate reflection of daily business conditions in the country.

These reports have been tabulated so that you may see at a glance how conditions are reported in various cities in each state, also what cities report a condition of "Good, Fair or Slow." At the end of this summary you will find valuable explanatory comments that have been sent in to CREDIT AND FINANCIAL MANAGEMENT. These additional comments may be pertinent to your interpretation of collection conditions and sales conditions in the cities listed.

State	City	Collections	Sales
Ariz.	Phoenix	Slow	Slow
Ark.	Ft. Smith	Fair	Fair
	Little Rock	Fair	Slow
Cal.	Los Angeles	Fair	Fair
	Oakland	Fair	Fair
	San Diego	Fair	Fair
	San Francisco	Slow	Slow
Colo.	Denver	Fair	Fair
	Pueblo	Fair	Fair
Conn.	Bridgeport	Slow	Fair
	New Haven	Slow	Fair
	Waterbury	Fair	Slow
D. C.	Washington	Slow	Fair
Fla.	Jacksonville	Slow	Slow
	Miami	Slow	Slow
	Tampa	Slow	Fair
Ga.	Atlanta	Fair	Fair
	Macon	Fair	Fair
Idaho	Boise	Fair	Fair
Ill.	Peoria	Fair	Slow
	Rockford	Slow	Slow
	Springfield	Slow	Slow
Ind.	Evansville	Slow	Slow
	Ft. Wayne	Fair	Fair
	Indianapolis	Slow	Slow
	South Bend	Slow	Slow
	Terre Haute	Fair	Fair
Iowa	Burlington	Slow	Slow
	Cedar Rapids	Slow	Slow
	Davenport	Slow	Slow
	Des Moines	Slow	Slow
	Ottumwa	Fair	Fair
	Sioux City	Slow	Slow
Kan.	Wichita	Fair	Fair
Ky.	Louisville	Fair	Fair
La.	New Orleans	Fair	Slow
	Shreveport	Slow	Slow
Md.	Baltimore	Fair	Fair
Mass.	Worcester	Good	Fair
Mich.	Detroit	Slow	Slow
	Flint	Fair	Slow
	Grand Rapids	Slow	Fair
	Jackson	Fair	Slow
Mich.	Kalamazoo	Fair	Fair
	Lansing	Slow	Slow
	Saginaw	Slow	Slow
Minn.	Duluth	Slow	Slow
	Minneapolis	Slow	Fair
	St. Paul	Fair	Slow
Mo.	Kansas City	Slow	Slow
	St. Louis	Fair	Slow
Mont.	Billings	Fair	Slow
	Great Falls	Fair	Fair
	Helena	Fair	Fair
Neb.	Omaha	Slow	Slow
N. J.	Newark	Fair	Fair
N. Y.	Albany	Slow	Slow
	Binghamton	Fair	Fair
	Buffalo	Fair	Fair
	Elmira	Fair	Fair
	Jamestown	Fair	Slow
	New York	Fair	Fair
	Rochester	Fair	Fair
	Utica	Fair	Fair
N. C.	Charlotte	Fair	Fair
No. Dak.	Fargo	Fair	Fair
	Grand Forks	Fair	Fair
Ohio	Cincinnati	Slow	Fair
	Cleveland	Slow	
	Columbus	Slow	Slow
	Dayton	Slow	Slow
	Toledo	Slow	Slow
	Youngstown	Slow	Slow
Okla.	Oklahoma City	Slow	Slow
	Tulsa	Fair	Fair
Oregon	Portland	Fair	Fair
Pa.	Allentown	Slow	Slow
	Altoona	Slow	Slow
	Harrisburg	Slow	Fair
	Johnstown	Fair	Fair
	New Castle	Slow	Slow
	Pittsburgh	Fair	Fair
	Wilkes-Barre	Slow	Fair
R. I.	Providence	Slow	Slow
So. Dak.	Sioux Falls	Fair	Slow
Tenn.	Chattanooga	Fair	Fair
	Memphis	Slow	Slow

State	City	Collections	Sales	State	City	Collections	Sales
Tex.	Austin	Slow	Slow	Wash.	Seattle	Fair	Slow
	Dallas	Slow	Fair		Tacoma	Fair	Fair
	Fort Worth	Good	Fair	W. Va.	Bluefield	Slow	Fair
	San Antonio	Slow	Slow		Charleston	Slow	Fair
	Wichita Falls	Fair	Good		Clarksburg	Fair	Fair
Utah	Salt Lake City	Slow	Slow		Wheeling	Slow	Slow
Va.	Bristol	Fair	Fair	Wis.	Fond du Lac	Slow	Slow
	Lynchburg	Slow	Slow		Green Bay	Slow	Slow
	Richmond	Fair	Fair		Milwaukee	Slow	Fair
	Roanoke	Slow	Slow		Oshkosh	Slow	Slow
Wash.	Bellingham	Slow	Slow	Terr. of Hawaii		Slow	Slow

Comments on collections and sales conditions

ARKANSAS: Ft. Smith reports collections seem to be tightening up some, but will perhaps be better with the opening of Spring; also that sales show a slight decrease under last year.

CALIFORNIA: While Los Angeles does not report on sales, they advise us that collections are almost good.

COLORADO: "Sales and collections in Colorado, Wyoming and New Mexico show some improvement over last month," states Denver.

CONNECTICUT: In Bridgeport there has been no improvement over last month in collections, but in their report on sales, they indicate that jobbers and wholesalers are buying for their immediate needs. New Haven reports there is a strong indication of improvement both in sales and collections. Waterbury advises, "Some slight improvement in working hours of some manufacturing companies. One or two smaller concerns have increased to overtime shifts to care for rush orders. A genuine desire to pay up old as well as current obligations on part of the individual debtors."

FLORIDA: There is no improvement in the Jacksonville territory either in sales or collections. The tourist season has been the poorest ever. Hotels and merchants are suffering badly. From Miami we learned that collections are slow and sales, considering the fact that they are in the midst of their season, decidedly slow. In Tampa the number of tourists spending the winter is very much smaller than usual, but this is due to the warm weather in the North and the general conditions throughout the country.

ILLINOIS: Even though collections in Rockford are still holding their own, they are slow, but there has been a slight improvement in sales during the last month. Collections at Springfield are slow, primarily due to the closing of 46 banks during the past month.

KANSAS: Conditions in Wichita seem to be getting a little slower monthly, as surplus cash and commodities are consumed.

LOUISIANA: Collections and sales conditions in Shreveport are continuing slow, the excessive rains having a great effect on sales.

MASSACHUSETTS: Worcester furnishes us with the optimistic news that collections are still improving and past due accounts are being wiped out, and that sales improved in January and are now considered fair in that territory.

MICHIGAN: Flint is finding collections in general greatly improved, but sales have been declining recently. Grand Rapids informs us that due to the lack of winter season, the merchandise has not been removed from the shelves, which has a decidedly bad effect on business. The following report was received from Jackson, "Credit has been restricted to such an extent that collections are fair on what credit is extended. Sales remain very slow, except in a few spots, and that covers mostly specialties." Detroit reports the following: "So far as we can observe, there is no noticeable change in either collections or sales from our report of a month ago. People are really trying to pay their debts and naturally there is an observable increase of failure since the first of the year, although leniency on the part of creditors definitely continues. It may be of interest to you to know that there is also a noticeable improvement in the last two weeks in public mental attitude. Locally, of course, a rather large measure of hope is placed in the automotive industry and official reports are showing a slight

(*Continued on page 41*)

Changes since last month's survey

State	City	Collections	Sales
California	San Francisco	Fair to Slow	
Connecticut	Bridgeport	Fair to Slow	Slow to Fair
	New Haven	Fair to Slow	
	Waterbury	Slow to Fair	Fair to Slow
Florida	Tampa		Slow to Fair
Georgia	Macon	Slow to Fair	
Illinois	Rockford		Fair to Slow
	Springfield	Fair to Slow	Fair to Slow
Indiana	Indianapolis	Fair to Slow	Fair to Slow
	South Bend	Fair to Slow	Fair to Slow
Iowa	Cedar Rapids	Fair to Slow	Fair to Slow
Massachusetts	Worcester		Slow to Fair
Michigan	Flint		Fair to Slow
	Grand Rapids	Fair to Slow	
Minnesota	Duluth	Fair to Slow	Fair to Slow
	Minneapolis	Fair to Slow	
	St. Paul		Fair to Slow
Montana	Billings	Slow to Fair	
Oklahoma	Tulsa	Slow to Fair	Slow to Fair
Pennsylvania	Harrisburg	Fair to Slow	
	Johnstown	Slow to Fair	Slow to Fair
South Dakota	Sioux Falls		Fair to Slow
Texas	Austin	Fair to Slow	Fair to Slow
	Fort Worth	Fair to Good	
	San Antonio	Fair to Slow	Fair to Slow
	Wichita Falls		Fair to Good
Wisconsin	Fond du Lac		Fair to Slow
	Milwaukee	Fair to Slow	Slow to Fair

Paging the new books

Reviews of the important books on business, to aid executives whose reading hours are limited.

This month's business book

WAGES AND WEALTH. By Roy Dickinson. Princeton University Press. $2.50.

Recently at the Olympic winter games in Lake Placid, New York, the American bob sled crew, beaten in the first race by a competing foreign team, realized that the momentum of their weight and the steering of their sled did not bring them victory. But where these factors could not win, a little ingenuity did. Young Stevens, one of the crew, took a blow torch and burned all the clinging ice and snow off the steel runners of the sled. The runners were then heated. The race came, and the American bob sled hurtled down the course to a new Olympic bob sled record.

Roy Dickinson in his new book on "Wages and Wealth" has taken a blow torch and melted distorted facts and half-truths from the runners of the American economic sled. The only difference in this analogy is that the economic sled will go upgrade just as rapidly as downgrade. Mr. Dickinson assumes that we are at the bottom of the toboggan slide and he predicates his arguments for business recovery upon the various relationships of wages and wealth.

Mr. Dickinson, who is Associate Editor of *Printers' Ink*, gives this book the same popular and fascinating style that has characterized all his *Printers' Ink* articles. It takes him only 158 pages to tell a story that many of our degreed and pedigreed economists have tried to tell in 500 pages.

The author pleads for a scientific approach to the wage problem and quotes just enough facts and figures to give every business man a sound and intelligent appraisal of the real truth about wages. He disparages the economic fallacy of dividend and interest earnings showing a marked increase while wages either stand still or decrease noticeably. Management is thoughtful enough to lay aside reserves in prosperous times to meet dividends in poor years. It does not, however, take the trouble to lay aside sufficient reserves to guarantee a measure of wage stability in times of depression. Wealth may be the door to permanent prosperity, but purchasing power is the lock and stable wages the key that will open the door to this prosperity.

One of Mr. Dickinson's main contentions is that a reduction in wages will not bring a corresponding reduction in the price of the product. Yet how often we read in the newspapers statements from business leaders in support of this contention. A 20% cut in wages of all bakers would only reduce the cost of a 12c loaf of bread 1c. People forget to figure that if the total labor cost in a loaf of bread is 40% and a 20% saving in labor is made, that the total saving that can be passed on to the consumer will be only 20% of 40%, or 8%. This constitutes one of the major fallacies in wage reductions.

In another chapter, the author presents "Nine Points for Management". These nine points really constitute a management catechism that every business and industrial organization in this country could follow with the utmost profit to themselves and to our economic welfare in general.

Mr. Dickinson's excellent book is a philippic against widespread horizontal wage-cutting. He has an amazing faculty for approaching our economic problems from a practical and common sense standpoint. "Wages and Wealth" is written in a style that is popular enough to make it fascinating and easy reading, yet it is full of facts that every business man will want at his finger tips. In none of our current business literature can you find a better interpretation of wages, wealth, the dole, unemployment insurance, economic panaceas, and the sound financial factors that must be adhered to if we are to work our way back to the joyous days of another period of prosperity.

CHESTER H. MCCALL.

Credit control

TRADE DEPRESSION AND THE WAY OUT. R. G. Hawtrey. Longmans, Green & Co., N. Y. $1.00.

If your reading appetite is depressed from an over-production of volumes dealing with over-production and depression, then it will be wise to offer you a tasty tidbit from this tidy tome by an English economist who does very well, thank you, by his statement and analysis of the commercial depression and by his solution as to the way out.

Speaking of tariffs, as very many people are, Mr. Hawtrey epitomizes the evils of protectionism in one pithy paragraph, which is many, many paragraphs less than most others employ.

"As an emergency measure in a trade depression, protection suffers from the vital defect that it is avowedly and essentially a policy for promoting a revival *in one country* at the cost of intensifying depression in the others. If it really promised a thorough cure, it would, of course, be difficult to restrain any country from resorting to it, even though when all did so none gained any benefit, but in reality the benefit it offers is very modest, perhaps almost insignificant, and for a great exporting country, any measure which threatens to retard a *world* revival is injurious."

As to "the way out", Mr. Hawtrey states that "the reduction of wages offers no more than a partial remedy. The *only* real remedy is the expansion of credit by central banks." That ties in very closely with the articles on the gold standard and on unemployment by Lionel D. Edie and by William Green on pages 9 and 12 of this issue.

—PAUL HAASE.

Revised edition

ACCOUNTING PROBLEMS: Intermediate. Charles F. Rittenhouse and Atlee L. Percy. Second Edition, McGraw-Hill Book Co., New York. $3.00.

The original work which appeared in 1922 has been revised to present many new problems and to bring the illustrative forms of financial statements in line with modern practice. This is a book which should be in the libraries of all those who have to interpret financial statements and reports. It covers single proprietorship as well as corporation problems, giving both theoretical and practical questions.

—HARRY G. ROMIG.

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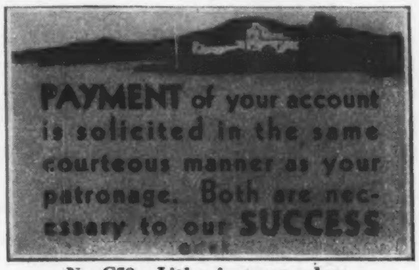

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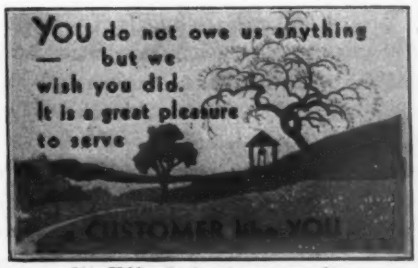

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5000	20	1.20	24.00	1.40	28.00
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Standardize the gold standard

(*Continued from page 9*)

tive by reversing the hoarding and liquidating mania. They now have only $400,000,000 of gold as active reserves; to raise the gold mobilized in these accounts by $200,000,000 would be a trifling drain on the gold supply of the United States but it would have far reaching consequences in combating the holocaust of deflation.

8. To mobilize or not to mobilize gold in this manner is a decision which central banks have to make. In this depression they have decided not to mobilize it and the deflation has become demoralizing. Their methods of action, involving mainly open market powers, are too well known to require discussion. Every one admits the powers are there—the only question has been whether and how to use them. Their use to date has been of a belated, indecisive character, which has found the credit situation always one step behind the accelerating forces of fear, hoarding, and loss of confidence.

The stage has finally been reached where either the credit authorities must adopt positive, sane, constructive policies along these lines or see the radical forces of discontent make the whole question a foot-ball of politics. Either the central banks must act or greenbackism, free silverism and a host of other isms will stalk into Congress and will even make a Presidential issue out of the question. This radical havoc is all so unnecessary. The requirement is merely to make the gold standard function. No radical ideas called for. Let gold do its normal work. Make the gold standard function. Could anything be more orthodox, more conservative, more harmless?

Buying for a bust

(*Continued from page 15*)

On November 10th, an involuntary petition in bankruptcy is—conveniently—filed. The usual scurrying about follows—big special sale instituted; followed by complaints that assets are being dissipated—conferences and meetings with creditors—tentative offers of compromise. "Yes, let's compromise." 50% compromise offer. "Accept the compromise; we will get less if we don't." Some few creditors refuse to settle on 50c basis—paid in full. The other seven hundred odd creditors accept—paid off. Case is closed! Profit to Mr. Commercial Burglar—$200,000.00. Loss to creditors—$200,000.00. $400,000.00 worth of merchandise has been dumped on the market at one half its real value, to provide ruinous competition to honest merchants, and to stop the legitimate purchase and sale of that amount of merchandise at a profit to wholesaler and retailer, and to the ultimate advantage to the consumer.

There you have all of the essential facts covering the promotion of this particular fraud — for fraud it was though there was no prosecution and conviction. It was simple to outline. And it was just as simple in execution.

Now, to go back and analyze the circumstances surrounding this fraud. The first question is—"Who is this Mr. Commercial Burglar? What was his standing in the field of business?"

Mr. Commercial Burglar issued a financial statement as of January 1st, which statement disclosed an excellent financial position. But while the good statement was quite essential to his "success," it was even more essential that he have a rating. That apparently presented no difficulty for him, however, since in July he found himself solidly established with all of the character, integrity, and responsibility—financially and morally—which attaches to a rating of "$75,000.00 to $125,000.00—Good."

So much for his standing. Now then, "Why was merchandise shipped to him on credit?"

Mr. Commercial Burglar's scheme, like many others, was investigated by the Credit Interchange Bureau Department of the National Association of Credit Men. A letter was addressed to each of his 750 creditors. They were asked, among other things, to give the date of their first sale, the date of their last sale, the amount due them at the time of the bankruptcy. And, finally, they were asked this question "On what credit information did you extend this credit?"

Two hundred and twenty replies were received. These replies were carefully checked, and figures compiled showing the amount of merchandise shipped on various types of credit information. Here is the result:

On reports secured from sixteen different credit service organizations, which reports were based largely on financial statement plus the usual general information	$ 22,039.00
On past experience, references, financial statements received from the purchaser—information from banks, attorneys, etc.	26,994.00
On recommendations made by various credit checking services	36,828.00
On ratings in reference or rating books	39,819.00
Total owing 220 creditors	$125,680.00

This review of the circumstances under which 220 creditors shipped Mr. Commercial Burglar $125,680.00 worth of merchandise is entirely impartial. It was developed from information contributed by those creditors who saw fit to answer inquiries addressed to them. It can be accepted as fairly representative of the total indebtedness. The total given above represents approximately 30.6% of Mr. Commercial Burglar's indebtedness at the time of his failure. And the same percentage applied to the detailed figures develops this situation:

Credits passed on reports secured from sixteen different credit service organizations, which reports were based largely on financial statement plus the usual general information	$ 72,000.00
Credits passed on reports on past experience, references, financial statements received from the purchaser—information from banks, attorneys, etc.	88,000.00
Credits passed on recommendations made by various credit checking services	120,000.00
Credits passed on ratings in reference or rating books	130,000.00
Total owing all creditors	$410,000.00

Such is the complete history of the case. Why was this "buying-for-a-bust" fraud successful?

The answer, which applies to all frauds of a similar nature, can be divided into three parts:

1. Dependence on financial statements
2. Dependence on ratings
3. Failure of creditors to cooperate with one another on an effective basis

It may appear strange that, while the answer to the question can be thus divided into three parts, a discussion of the three factors cannot likewise be strictly divided. That is the case, nevertheless, since any one of the three is both the cause and result of the other two. Dependence on financial statements and ratings frustrates efforts at effective cooperation; and, conversely, lack of effective cooperation suggests recourse to financial statements and ratings. Thus, while they are so interlocked one with another as to prohibit individual consideration, taken together they represent the real weakness of credit practice of the present time, and are not only the reason why it is possible to promote "buying-for-a-bust" fraud, but in addition are the cause of the hundreds of millions of dollars of unnecessary bad debt loss suffered each year.

The first cause of these fraud losses is listed as "Dependence on financial statements." Any attempt to question the dependability of the financial statement as a guide to credit responsibility under any and all circumstances will be considered almost sacrilegious by many. In the past, it has been the foundation stone of credit. It has been looked upon as *the* piece of information to which all other data was secondary, if not altogether trivial and unnecessary. Yet, in cases of fraud, the financial statement, or the credit report built around it, is the most dangerous piece of credit information which could possibly fall into the hands of a prospective creditor.

A "buying-for-a-bust" fraud is not the result of an impulse of the moment. It is deliberately planned and prepared for in advance. The first step in that planning and preparation is the issuance of the financial statement, which the "buying-for-a-bust" crook proposes to use as the basis for securing merchandise on credit. The statement may be entirely correct in the condition it represents. Its figures may be accurate to the last detail. On the other hand, it may be a deliberate misrepresentation from beginning to end. Whichever is the case, the purpose is the same; it is intentionally issued by the crook as an aid to him in the development of his fraudulent scheme.

In defense of the financial statement, it might be said that if it is false, it can be used as basis for prosecution. But that is a matter of no concern here. The question is not whether the crook can be prosecuted and convicted, but whether it is possible to avoid the losses which result from dealings with him, regardless of whether there is conviction or not. Since it must be evident to all that the "buying-for-a-bust" crook deliberately plans to use his financial statement to his advantage, it should be a logical conclusion that the same financial statement cannot be depended upon as a measure of protection against him.

In addition to being of no value as a protection in itself, the financial statement is a further contributing factor to fraud losses because the esteem in which it is held by so many credit managers, and the dependence placed upon it by them automatically result in their failure to secure the information which would protect them.

The second cause—"Ratings." And the major responsibility for fraud losses rests with ratings.

(*Continued on page* 33)

Our readers think

I wholly disapprove of what you say and will defend to the death your right to say it.— Voltaire to Helvetius

Charge collection fees to the debtor

Mr. H. H. Kase, who favors the demise of the monthly statement, is also a pioneer in other things in credit procedure, notably the charging of collection fees to the debtor.

Dear Sir:

The article on page 35 of the December issue of CREDIT AND FINANCIAL MANAGEMENT was noted with a great deal of interest by the writer in view of the fact that it stated that A. H. Hazzard of the Grace Corset Company, Kalamazoo, Michigan, had not been able to find another manufacturer operating on the same basis in regard to collection fees.

We have followed this practice for a great number of years and, while we cannot say that we have been surprised at the number of accounts that were willing to repay the collection fees in order to be placed on an open account basis with us again, nevertheless there has been a considerable number who have seen fit to do so, and it is our impression that as a general thing those accounts which have been rehabilitated have been the ones that were worth while and that the others are not accounts that we want or care about anyway.

Of course, there are exceptions to the general rule and therefore we make exceptions for exceptional circumstances and occasionally reopen an account without payment of the collection fees, especially during these somewhat trying times, when naturally a great many more accounts reach our collection agents than would be the case under normal conditions.

It has been our experience that we serve a great many of these closed accounts on a cash or C.O.D. basis, in this way making enough profit on subsequent sales to take care of the collection expense on the old accounts.

Very truly yours,
H. H. KASE.

Collection commissions

A valid point of interest to credit executives is brought up by Mr. Hare. We would like to hear our readers' opinions and experiences on his request.

Dear Sir:

As a reader of CREDIT AND FINANCIAL MANAGEMENT, and credit man for a wholesale dry goods company, I want to ask your opinion on the following problem: In order to bring in the collections for dry goods sold we are considering paying the salesman a certain percent of the collections he makes in place of paying him a percent on the sales he makes as we are doing now.

I would also appreciate receiving the names and addresses of two or three concerns who have used the system of paying the salesmen commission on collections.

We feel that your readers' views on this subject will be of considerable help to us in determining what systems to use.

Respectfully yours,
W. T. HARE,
The Frank E. Wood Company,
Jacksonville, Fla.

Collection responses—No. 1

One of the compensations of the man whose duty it is to watch credit and collections in a business venture, is the humorous (often without intent) answers he receives for non-payment of an account past due. Whether or not the following was intentional, its type can be the best bracer if received on a day that finds the desk loaded with work, "past-dues" showing a tendency to remain that way, and a couple of liquidations and adjustments impending.

Dear Sir:

The following reply to a collection letter may be of interest to your readers:

"Long Beach Glass Company
Long Beach, Calif.

Your of Jan. 28 recv'ed and thanking you to awaithing for your coins but the botles as not been used yet the bisnes still sleeping but your money is sure before the end of the month February.

Very truly
Your Peter Georgi"

Yours very truly,
Long Beach Glass Company
A. E. Foster, Asst. Secy.

—No. 2

Not uncommon is this experience related by Mr. Bolles but the letter he includes might be classed as a minor masterpiece of its kind.

Dear Sir:

We are attaching a copy of a letter which we received through the mail today about a balance due us on one of our popcorn machines that we sold to a chap by the name of Ginn. Incidentally he seems to be well named judging from the paragraph in which he describes his character.

Cordially yours,
WM. P. BOLLES.

And here's the little gem that Mr. Bolles received:

Dear Sir:

Your favor of January 6 relative to my balance due you of $162.00 on pop corn machine.

Your representative was here about two months ago and offered to square off my account for $125.00 but I told him that I could not pay it and he took possession of the machine, and it is now in storage here, and subject to storage charges. If you do not care to run up a big storage charge on this machine, suggest that you remove it as early as possible.

If you care to have me crate this machine for shipment, I will be glad to do so for a reasonable amount.

Relative to your institution of a law suit, wish to say that you give me a big laugh. Especially the part about impairing my reputation in the community in which I live.

My intimate friends all consider me a boot-legger, horse-thief, hi-jacker, and gambler, and if you can hurt the above reputation, you are certainly at liberty to proceed.

I have been out of business here for 16 months, haven't had a day's work, and if you can get any money out of me, better bring along a lemon squeezer.

With best wishes, I am,

Yours very truly,
J. O. GINN.

Buying for a bust

(*Continued from page* 31)

In advance of the discussion on ratings and the part they play in cases of fraud, let this be understood: Criticism of ratings here is not criticism of the organizations publishing rating and reference books; if there is to be criticism, that criticism must be of the users of the books and not of the publishers. It would not be greatly amiss to say that rating books had their beginning in the days of the "prairie schooner". The "prairie schooner" is gone, but the rating book remains. If there should still be those who prefer to travel across the country in "prairie schooners", certainly no criticism could be made of organizations which might manufacture such conveyances for their convenience. The rating book should have disappeared many years ago. It has no place in modern credit practice. Yet, because there is a demand for it, it remains.

In the case of Mr. Commercial Burglar, ratings are directly responible for $130,000.00 of the credits he secured. That is the direct responsibility. But it is only a fraction of the charge against ratings. In all of the credit based on financial statements received directly from the purchaser, references, past experience, information from banks, attorneys, etc., as well as that volume of credits passed on the recommendations of various credit checking services, ratings played a part. In the majority of cases, all of this information was used supplementary to and in presumed substantiation of ratings.

But that is not all of the story of the responsibility of ratings. The greatest indictments against them still remain. Ratings have always been the greatest factor in retarding the development of effective cooperation among creditors. And most destructive of all, the creditor who depends upon ratings works alone and apart from everyone else. When he depends on ratings, no one knows that he has received an order, that he has shipped that order, or that he is a creditor. He enshrouds himself in a cloud of secrecy, and by so doing innocently, but nevertheless effectively, helps to conceal the fact that a "buying-for-a-bust" fraud is in process of development.

The "buying-for-a-bust" crook is not an ignorant foreigner, unacquainted with and unskilled in the way of American business. Like every other type of crook, he is a student of his trade. He carefully analyzes present day credit procedure, and finding its weaknesses, he knows just how to go about getting merchandise on credit. He studies the rating book field, and finds that under present schedules such books are published at periods generally varying from one a year to six a year. Establishing these schedules, he knows that he has a minimum of sixty days' time in which to promote his "buying-for-a-bust" spree before the most frequently revised books can in any way interfere with his plans.

As a matter of fact, he knows that, regardless of any change which might take place in his rating at the end of that period, sixty days is about the maximum time his buying spree can run. He knows that rapidity of purchase must be a part of his program, for when the bills covering his first purchases become due and he fails to meet them promptly, he knows those creditors will begin to investigate. They will institute those investigations through channels other than the rating and the financial statement. They will begin to ask about his paying record, and when they do that his scheme will be discovered. To illustrate: Note that of the 750 creditors of Mr. Commercial Burglar, 490 made their first shipment of merchandise to him subsequent to September 1st. That is to say, in approximately sixty days' time he succeeded in securing merchandise from 490 firms who had never sold him previous to that date. That is a true picture of the buying spree usually found in all such frauds.

That the "buying-for-a-bust" crook deliberately plans that his rating shall be his greatest assistance in the promotion of his scheme must be perfectly obvious to all. If further illustration is needed, note three "buying-for- a-bust" frauds. First, that of Mr. Commercial Burglar who, having a rating of $75,000.00 to $125,000.00—Good, placed orders averaging $550.00 with 750 creditors. Note another "buying-for-a-bust" crook who, having a rating of $20,000.00 to $35,000.00—Good, placed orders averaging $205.00 with 500 creditors. Note still another member of the crook fraternity who, having a rating of $3,000.00 to $5,000.00—Good, placed orders averaging $75.00 with 600 creditors. Does that indicate

(*Continued on page* 36)

Insurance digest

Inaugurated because of the credit fraternity's close contact with the insurance field and need of information about it.

Embezzlements increase

A detailed investigation of its claim records made by the National Surety discloses a marked increase in embezzlements and defalcations by trusted employes, and other forms of crime during the long period of general depression, says the *Insurance Advocate*.

In a statement made by Wm. B. Joyce, Chairman of the Company, attention is called to the unusually large losses paid by surety companies on fidelity bonds, burglary and hold-up insurance policies issued to the commercial and financial institutions of the country. The service rendered to the business world by the prompt payment of claims has emphasized the necessity for a greater degree of protection afforded under fidelity and surety bonds and burglary insurance policies.

Mr. Joyce stated that the claims made on his company have been so numerous that the administration decided upon a policy of relentless prosecution of all defaulters, and the following is a report on prosecutions made by the National Surety for the year 1931 arising under fidelity bonds covering trusted employees:

Sentences

1 year or less	22
1 to 5 years	66
1 to 14 years	8
1 to 20 years	2
1 to Life	3
5 to 10 years	19
10 to 15 years	8
15 to 20 years	6
7 to 21 years	1
3 to 50 years	2
30 to 50 years	2
52 years	1
	140
Suspended Sentences	2
Probation	19
Acquitted or dismissed	12
	173

Huge annual fire losses

Fire losses in the United States last year reached a total of $452,017,026 as reported by the National Board of Fire Underwriters. This compares with $463,621,762 for 1930 or a decrease of about $11,600,000 and with $422,215,128 for 1929. Although the 1931 figures show an increase of around $30,000,000 above 1929, last year's results do not represent an alarming total of fire waste. In a year when premium income was more nearly normal the loss total for 1931 would not tend to eliminate underwriting profit.

In December, 1931, the loss total was $40,514,368 as compared with $42,669,915 for the same month of 1930 and with $39,726,338 for December, 1929. For the twelve months of 1931 the fire loss record is given herewith with the corresponding months of the two previous years:

	1929	1930	1931
Jan. ..	$44,713,825	$42,344,035	$44,099,449
Feb. ..	41,520,290	43,206,940	41,776,051
Mar. .	41,277,814	42,964,392	44,074,362
Apr. .	36,845,795	43,550,996	41,423,764
May .	32,129,409	38,415,142	37,835,278
June .	33,605,663	31,818,266	33,368,378
July .	31,985,493	34,847,750	33,024,594
Aug. .	30,446,893	36,043,679	31,917,630
Sept. .	29,249,355	35,239,456	33,202,986
Oct. .	31,652,385	36,838,614	35,501,530
Nov. .	29,061,869	35,682,577	35,287,641
Dec. .	39,726,338	42,669,915	40,514,308
Total..	$422,215,128	$463,621,762	$452,017,026

60 day loss clause upheld

The Federal Circuit Court of Appeals, Eighth Circuit, in Niagara Fire v. Pospisil, an action on a fire policy covering a building and personal property therein, holds that where such a policy requires the filing of sworn proof of loss within sixty days and the policy provides that no suit or action thereon shall be maintainable in any court until after full compliance with the requirements set out in the policy, compliance with this time provision is a condition precedent to recovery on the policy, says the *Eastern Underwriter*.

This doctrine the court finds supported by the great weight of authority in the federal courts. And it holds that there is certainly not full compliance with the requirements of a policy if proofs of loss are furnished, as was the case here, not within sixty days, but more than seven months, after the fire. The court did not find it necessary to consider the conflcting views of various state courts on the subject, the question being one of general law as to which federal courts are not bound by state decisions even of the highest court of that state in which the contract is made.

The appeal was from a judgment for the plaintiff of the federal district court for South Dakota. The South Dakota statute, Revised Code 1919, section 888, provides that "time is never considered as of the essence of a contract, unless by its terms expressly so provided." Because of that statute, the district court held that compliance within the sixty-day provision was not a condition precedent to recovery.

The appellate court admitted that it is true that this statute does enter into and become a part of every South Dakota contract made after its enactment and that it must be given that construction and effect which has been given it by the Supreme Court of that state. That court has decided that "whether or not time is to be considered as of the essence of a contract depends upon the intention of the parties thereto and the object to be attained by the contract, rather than upon the express declaration of the parties contained therein."

The appellate court holds, however, that, if there was any doubt that it was the intention of the parties that a suit could not be maintained upon the contract if proofs were not served within sixty days after loss, that doubt was removed by the further language of the provision that, "unless such time is extended in writing by this company," the proofs must be served within sixty days. The obvious significance of this clause, the court said, was to emphasize the vital nature of the time limitation.

Holding that, within the meaning of the South Dakota statute, as construed by the Supreme Court of South Dakota, the intention of the parties was that compliance with the sixty-day provision should be essential to recovery on the contract, the court reversed the judgment for the plaintiff.

Buying for a bust

(*Continued from page 33*)

that the "buying-for-a-bust" crook overlooks his rating in planning his scheme? Or does it indicate that he places orders in such amounts as he confidently expects will be shipped on his rating without further investigation?

Now for the third cause of fraud losses—"Failure on the part of creditors to cooperate with one another on an effective basis." In the discussion of financial statements and ratings, it has been pointed out that the use of such credit information is in itself a great factor in destroying or defeating effective cooperation. Another factor is to be noted in that class of information listed under the heading of "Credits passed on reports secured from sixteen different credit service organizations, which reports were based largely on a financial statement, plus the usual general information."

It must be apparent that when notices of orders received are scattered among sixteen different credit service organizations, that scattering in itself promises protection to the crook. It lends assurance that his scheme will not be discovered early enough to completely defeat it. So long as that scattering of information continues, "buying-for-a-bust" fraud will be at least partially successful. And when, as in the case of Mr. Commercial Burglar, there is that scattering of information coupled with a large number of creditors who are acting secretly and alone because of their dependence on ratings, and there is still another group of creditors who are placing their sole reliance on financial statements, there is little hope of defeating this type of fraud.

How can "buying-for-a-bust" fraud be avoided? Here is the way:

1. Never depend on a rating. Better still, eliminate the rating book from credit practice altogether. Its use invites losses through fraud. Those who depend upon it will find their losses in direct ratio to the number of times they are selected as victims by perpetrators of "buying-for-a-bust" fraud.

2. Recognize that the financial statement, while it has a value in credit practice, is, nevertheless, only partial information; that a financial statement issued on January 1st in preparation for a fraud cannot be used as a protection against the "buying-for-a-bust" scheme instituted on September 1st. It must be remembered that a financial statement is not a magician's hat. Nothing can be taken out of it which was not placed in it; and a financial statement of January 1st is never satisfactory evidence of credit responsibility at any time subsequent to that date. A financial statement has a value when considered on its merits, but it cannot be a prophecy of future conditions.

3. Last, and most important, any worthwhile effort to defeat "buying-for-a-bust" fraud must be based on cooperation. But it must be *effective cooperation*. And there is only one kind of cooperation which can be effective. That which will bring together all of the creditors of an individual customer regardless of the location of the customer, location of the creditors, or the lines of business in which either or both may be engaged.

The case of Mr. Commercial Burglar clearly points out the results of the wrong kind of cooperation. In one line of industry, in which he placed the majority of his orders, there were thirteen group organizations with which various concerns in the industry were attempting to cooperate. By splitting themselves into thirteen different groups and thereby dividing their information into thirteen parts, they not only failed to protect themselves, but in effect abetted Mr. Commercial Burglar in the promotion of his scheme.

That is not to say that one organization in that industry instead of the thirteen would have protected the creditors. All of Mr Commercial Burglar's orders were not placed in one line of industry. They were scattered over many, and while a better cooperation in this particular industry would, no doubt, have brought the scheme to light at an earlier date, there would, nevertheless, have been a partial loss.

There is only one way to discover "buying-for-a-bust" fraud. That is to discover the over-buying. Is it not obvious that over-buying will most quickly be discovered when notices of orders placed are centered with one organization? Is it not further obvious that when a large number of credit service organizations invite creditors to place such information with them and thus scatter it, they are actually contributing to the success of the fraud rather than assisting in its defeat? Must it not be obvious to credit managers generally that they cannot work alone, nor in groups, and protect themselves? And by groups is meant either centering information by industries, by markets, or by attempting to work through a vast number of different credit service organizations.

When the credit fraternity comes to a realization that effective cooperation is the only protection against fraud, and that effective cooperation means the centering of all information on orders placed by a common customer in one organization where it will be available to all, and to which all will report orders received, and from which they will secure a record of other orders placed, there will be no "buying-for-a-bust" fraud.

Until this simple fact is thoroughly understood, "buying-for-a-bust" fraud will continue, and will be at least partially successful despite the efforts of both the Fraud Prevention Department and the Credit Interchange Bureau Department of the National Association of Credit Men; the first of these is the greatest deterrent of fraud in existence today, and the second has done more to defeat "buying-for-a-bust" fraud than all other credit services combined, as is shown in the case of Mr. Commercial Burglar wherein the Credit Interchange Bureau Department stopped the shipment of orders totaling over $120,000.00 which had been placed with 224 of its member users.

The National Association of Credit Men was organized by and for credit departments and credit managers. It has set up the machinery which will protect them against fraud and unnecessary bad debt loss of all kinds. It remains only for the credit fraternity to cooperate effectively with one another through this, their own organization, to center their information with it, and to look to it for protection. By so doing, they will be sure that the safe is locked, that the money and merchandise is not left on the counter with the doors open, and that the family jewels are not left on the front door step.

And not only will they protect themselves against fraud, but the present annual bad debt loss in bankruptcies alone generally estimated at close to one billion dollars a year, which is a flagrant criticism of credit management generally, will be reduced to a point where it will be a glowing commendation of their efforts. And in accomplishing that reduction and protection, they will automatically reduce present expenditures for credit information, for collection fees, and general credit work and activity by tens of millions of dollars annually.

Creditor tariffs

(*Continued from page* 17)

kan, in the French markets—a policy contrary to that adopted by England. But, may not these foreign loans be said to have been prompted primarily by political rather than by economic considerations? In other words, France was perhaps not so much concerned over the ability of her debtors to meet the service on their obligations held by numerous French investors, as over the fact that these loans may at one time prove of far greater significance to the French nation. Subsequent events seem to bear out this view. To be sure, French bondholders have lost heavily in Russia and in the Balkans, but was the price too dear when we consider that these French advances have greatly contributed towards the preservation of the French nation? Would not Germany have overrun France at the beginning of the great cataclysm, if she had not been obliged to protect her Eastern frontiers?

The tariff history of Germany durnig the nineteenth century begins in 1818 with the adoption by Prussia of a general tariff. Important developments during the following years are referred to hereunder:

Year	
1831–34	Zollverein (Customs Union) formed despite popular opposition.
1853	Commercial treaty with Austria providing for reciprocal reduction of duties.
1865	Commercial treaty with France resulting in important reductions of duties.
1879	Protective system reinstated—Duties raised on manufactured goods and agricultural products.
1892	Protective system moderately changed. Commercial treaties with a number of countries providing for reduction of duties in all directions.

Apparently, the reduction of duties effected by Germany in 1892 did not prevent German industries from assuming the great importance which they did assume, and France's industrial expansion does not seem to have been effected in proportion to the protective measures which she has adopted.

The history of the tariff policy of the United States is beyond doubt the most kaleidoscopic. It may be said to have begun with the passage of the Tariff Act of 1789 which, while moderate as regards duties, was nonetheless protective in spirit. Important events which occurred in later years are presented in tabular from hereunder:

Year	
1816	Tariff duties increased.
1824	Marked increase in duties effected.
1828	"Tariff of Abominations" so-called because of its numerous objectionable features.
1832	"Abominations" removed—Protective system deliberately and carefully arranged—South Carolina endeavors to nullify Tariff Act.
1833.	Duties reduced.
1842	Protective system restored.
1846	System of moderate protection introduced.
1857	Further reduction in duties effected.
1860–61	Morrill Tariff Act passed providing for increase in duties.
1862–64	War Tariff introduced, raising duties materially.
1867	Increase in duty on wool and woolen goods.

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In the modern office

An idea and experience exchange on equipment, system and management in the modern credit and business office.

Electrically operated safe

The new Electric "Rekordesk" Safe announced by the Diebold Safe and Lock Company of Canton, Ohio, introduces a new idea into record protection, furnishing convenient and adequate fire protection for card records where they are used instead of inconveniently and laboriously taking the records to protection. The door is opened and the card trays raised to operating position electrically. One button automatically opens the door and another closes it. A third button stops the door while in motion. Electric power is automatically cut off with the completion of each operation. All the manual effort rerequired is pressing the button, dialing the combination and turning the bolt handle. The door disappears within the body of the safe when in open position. Light and vision are unobstructed. The "Rekordesk" is a combination of desk and safe. The manufacturer calls attention to the saving in floor space, inconvenience and expense made possible by the Electric "Rekordesk" Safe. When cards are used in unprotected containers they must be removed at night to a distant safe or vault. Instead of requiring two units, one for operation and one for protection, the Diebold Electric "Rekordesk" Safe combines both in one unit. The efficiency of the operator is increased by the convenience of the sliding desk top and other conveniences. It is claimed that one of this new safe's greatest advantages is the ease with which records are protected from daytime fires. The records are always in the safe—being removed only for posting and immediately returned to the safe. In case of a daytime fire all the operator needs to do is to push the button and run to safety. The safe will automatically close and lock. The "Rekordesk" is adaptable for either machine or hand posting. In addition to its convenience as an office tool, it possesses certified 2-hour fire protection.

New daily business record

Burroughs Adding Machine Company, Detroit, announces a new *Daily Business Record* to provide a simple and easy method for recording daily transactions in conjunction with the use of the company's new cash registering machine. This new record book contains forms for one year's complete figures. It is divided into twelve sections, one for each month. Each section contains the following record sheets, appropriately ruled and headed: Cash Record, Due from Customers, Money Owed for Purchases, Expenses, Merchandise Purchases, Sales by Clerks and Departments or Commodities, and Memoranda. All forms are designed to carry daily totals forward progressively throughout the month. Supplementing this is a section for monthly figures. This is a "Profit and Loss" or summary section, so arranged that monthly totals of each set of figures can be carried forward and a complete year's record built up. An outstanding feature of the new record book is its simplicity. It is so designed that all entries may be easily made without a knowledge of bookkeeping procedure. It is pointed out that while the book is not intended to possess all the advantages of a double-entry bookkeeping system, it does provide a practical record of transactions, and it gives the owner a down-to-date picture of each phase of his business.

New speed-carriage Ditto

Ditto, Inc. has announced the new Model F-4 Precision Speed Carriage Ditto, which is a distinct advance in gelatine duplicating equipment. A positive home position lock accomplishes exact precision, by keeping the carriage in accurate home position until paper has made positive contact with the duplicating surface. An automatic margin bar, the operation of which is synchronized with the action of the handle, is now an integral part of the carriage. A registration adjustment dial insures against inaccuracies resulting from carriage operation and, in addition, failure to register caused by inaccuracies in printing, cutting of blank forms, accidental movement of gelatine roll, etc. Hairline registration is accomplished under any conditions. A new four-point adjustable bearing contact makes for increased ease of operation. This is further exemplified by the fact that the backward (stripping) action of the carriage is practically as easy as the forward (feeding) action. A new stripping principle is used in which a speed controlled Pressure Roller provides the stripping action. This action is said to be so positive that the lightest tissue sheet can be removed from the gelatine without tearing and without any assistance in pulling it off by hand. Briefly, the new Ditto machine is radically different and substantially automatic. All of the finesse formerly obtained by only a skilled operator is now incorporated in the machine so that a simple pull and push of the carriage is sufficient to produce the highest quality of work.

Handy file

A handy individual file for a deep desk drawer, or the rentention of private executive papers, is the Bushnell Vertex Alphabeter, made by Alvah Bushnell Company. This is a complete alphabetical unit of twenty-six indexed vertex file pockets, each one capable of $1\frac{3}{4}$ inches expansion, and four extra blank pockets. All pockets are metal tabbed. The Alphabeter is standard correspondence size and fits any vertical file cabinet or lower desk drawer. Very convenient for organizing those papers which clutter up the desk.

New typewriter type face

The Royal Typewriter Company, Inc. has announced a new, exclusive type face, known as "Modern Pica." This face, designed by Michael Lipman, is intended to permit business houses a certain individuality in their typewritten letters without, however, departing too far from traditional lines. The new face has many features, its chief merit being perhaps its openness in character of design which improves carbon and mimeographing properties. Capital letters are also said to be more legible because of more symmetrical designs.

Office production

Readers interested in measuring production of office work, especially typing output, might be interested in "Measurement; The First Fundamental Of Office Management" by D. J. Ogilvie, issued by Veeder-Root, Incorporated, Hartford, Connecticut.

Creditor tariffs

(*Continued from page 37*)

1869 Increase in duty on copper.
1870 Duties reduced, especially on iron, but increased on steel rails and marble.
1872 More general reductions effected.
1873 Duties restored to former levels.
1882 Special Tariff Commission created by Congress.
1883 Revision and codification of tariff system.
1887 Protective system attacked by Clevelahd.
1889–90 McKinley Tariff Act passed providing for increase in duties.
1894 Wilson Tariff Act passed providing for reduction of duties and the abolition of duty on certain articles.
1897 Dingley Tariff Act passed providing for increase in duties and reciprocity arrangements with other countries.

Within recent months, numerous statements have been made public in regard to the relation between a protective tariff and American prosperity. One of these statements, which gained particularly wide publicity, arrayed a number of alleged facts purporting to prove that the welfare of the United States was inextricably tied to rigid and unqualified protection.

Every one who dared express an opinion concerning the disadvantages of a high protective duty was unmercifully attacked, with the shaft aimed particularly at the so-called American imperialists and bankers. Concerning the latter, the statement maintained, ***inter alia***, that "International bankers . . . . partially through their desire to further their selfish interests, and partially to cater to the desires of those in control of foreign markets, have been conducting an insidious campaign to make the American public believe that we should reduce our tariff rates or, better still, eliminate our tariff altogether."

When viewing our present rigidly and unqualifiedly protective rates, which are appreciably in excess of those of even the most restrictive tariffs of European countries, we must bear in mind the indebtedness of the world to us, which aggregates, exclusive of so-called intergovernmental loans, almost $18,000,000,000. To meet interest and sinking fund payments on such an enormous total is a problem the importance of which we cannot afford to ignore.

The rest of the world has, until recently, been eminently successful in meeting their debts to us promptly and faithfully. We must, however, take into consideration that these prompt and faithful payments were, in many instances, made possible only by new borrowing, that is, by the creation of new debts, wherewith old debts were discharged. To be sure, a considerable part of the service was derived from such invisible items as tourists' expenditures and emigrants' remittances. Shipments of gold, while possible, must of necessity be restricted because the amount of gold available in the various debtor countries is not so large as to make feasible shipments of more than a relatively small amount.

The importation of internal issues would, of course, contribute toward a solution of the problem and, with the restoration of the gold standard in most countries, the matter has been made easier. However, the experience which many of our investors had with foreign currency loans, and the losses incident upon such investments, are still too fresh in their memory and it will take some time before the foreign internal issue will become popular.

Payments through merchandise might, in all likelihood, simplify matters, and countries need not fear that low tariff oı even free trade would impair or destroy their economic self-sufficiency. Genuine competition is beneficial, is conducive to greater progress, and is, in consequence, not to be feared. Artificially-created competition, on the other hand, is admittedly a serious cause cf market disorganization, and it often leads to conflicts between nations.

The introduction of rigidly protective measures will, therefore, tend to seriously reduce this most important source of revenue available to the rest of the world, with which to meet payments to us. They will struggle to live up to obligations already contracted, but will in all probability abstain from seeking new accommodations. It has been repeatedy demonstrated that the relation between American prosperity and American investments abroad is much closer than many are willing to admit. Consequently, cessation of foreign loans may, and in all likelihood will, interfere with America's economic progress.

That it is essential for the United States to invest abroad, may be evidenced from observations made by sin-

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Creditor tariffs

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cere students of economics, to the effect that whenever the wealth of a nation increases faster than that of its neighbors, profits of home industries show a distinctly downward trend; and that the most effective way of arresting such trend is the "overflow" of capital into colonies and foreign countries. America's aggregate excess of exports over imports for the years 1914-1929 corresponds almost exactly to America's total investments abroad, which would seem to indicate that, in addition to having succeeded in disposing of $26,000,000,000 worth of excess goods at a good profit, we have managed to create on the books of the rest of the world a balance in our favor equivalent to $26,000,000,000. Depriving the rest of the world of their means of payment we, *eo ipso*, curtail their borrowing here, with the result that their purchases from us will seriously suffer. Our exports, in other words, will begin to show a marked shrinkage, reducing output, employment, and purchasing power of our people.

A careful analysis therefore, of all facts entering into the tariff problem, will reveal that whatever might be gained by the introduction of rigidly protective measures, in one direction, would doubtless be lost in another.

Aids for statistical analyses

(*Continued from page* 23)

the percentage below the upper boundary of each mid-cell, while the last column gives the percentage greater than the lower boundary of each mid-cell.

We may often have groups of data in which we wish to find the average and standard deviation for groups in which the number of observations may be very small. In fact, if we attempted to classify the data in cells we would probably only have 1 or at most 2 in any cell and many cells would have no observed values. It is not desirable to work with data in which the number of observations is less than 4. For this case it is easier to record in one column the actual values and in a second column record the squares of these values. Any table of squares will prove useful as it will save one the labor of making the actual multiplications. Obtain the sum of these two columns and record, together with the number of observations n. Dividing the sum of the X values by n gives the average M. To find the standard deviation s, divide the sum of the X^2 values by n, subtract the square of the average M^2, and extract the square root of the difference. This gives the standard deviation directly. Figure 2 gives a form which will assist in these calculations.

At the bottom of the form is given a place in which may be recorded the observed variation limits and likewise the expected variation limits, based on a probability of .9973 for the Normal Law, using a range obtained by taking three times the standard deviation about the observed or expected level. We have used primes to denote the expected values, which should be selected by using all the information available. There are three groups of ranges given:

(1) For observed individual values;
(2) For observed average values;
(3) For observed standard deviation values.

Using these values as criteria, we are able to determine whether the data under consideration are controlled about the expected level or not.

For those who use computing machines and have distribution machines, it is possible to simplify the work. There are distribution machines which have a row of 10 to 20 counters which record automatically the number of times the lever by each counter is pressed. Using a 20 bank machine a strip of paper may be prepared and placed across the top of the machine showing the cell boundaries for each cell. In going over the data one need only punch the proper levers and when the final observation is classified, the distribution can be immediately recorded on a form similar to form 1.

The values of xf need not be recorded as the sum of the product can be automatically carried in the computing machine. The same method is employed for machine calculations as for ordinary arithmetical calculations in establishing boundary and mid-cell values. The numerical magnitudes of the x^2 values are recorded in this form so that one puts these in the machine, multiplying each by the proper value of f and the machine gives at the last only the sum of the products. This is then recorded.

After this the same divisions, multiplications and additions may be made as on Form 1. The square root of the second moment about the average may be computed on the machine by the standard machine method, so that in approximately 10 minutes a distribution can be obtained and its average and standard deviation found. The time will vary for obtaining the distribution, depending on the number of observations, but the amount of time required for obtaining the average and standard deviation is the same for each distribution.

Similarly, if the number of observations is small, the actual values together with their squares can be found simultaneously by a computing machine so that the two sums can be recorded. Form 2 can be used but the values of the squares of the observed values need not be recorded, only the sum. The balance of the computations can be performed on the machine in an exceedingly short period of time.

We will illustrate the use of these forms to show their use by taking two groups of data, one containing 225 observations and the other 10. Both represent in dollars ($) the actual amount of the sales during a day by 225 clerks in Case 1 and by 10 clerks in Case 2.

Case 1. *Sales in Dollars for January* 22, 1932 *for* 225 *Clerks*

Firm A

127.65,	135.47,	231.25,
122.36,	154.78,	162.98,
132.55,	47.50,	600.00,
143.56,	321.75,	543.89,
23.78,	216.75,	532.00,
643.86,	321.75,	576.00,
854.32,	48.50,	632.87,
790.54,	531.09,	341.83,
734.75,	721.67,	34.56,
99.05,	132.45,	521.78,
532.65,	310.89,	278.50,
286.00,	410.85,	98.75,
98.05,	230.82	385.00,
165.00,	420.82,	320.80,
654.00,	520.05,	325.75,
543.75,	751.07,	543.86,
125.75,	345.65,	650.00,
95.67,	74.59,	658.75,
165.78,	295.00,	320.06,
320.00,	450.78,	543.55,
300.00,	450.05,	100.00,
500.00,	589.60,	507.85,
165.00,	781.00,	320.75,
650.00,	185.25,	274.98,
148.00,	189.50,	438.62,
241.31,	215.00,	57.62,
322.00,	422.65,	417.43,
452.78,	152.65,	133.65,
142.67,	542.90,	154.85,
543.76,	642.10,	328.97,
521.65,	421.87,	521.75,
424.70,	500.00,	650.75,
765.30,	250.50,	541.90,
65.78,	521.45,	89.00,
345.00,	420.90,	420.75,

265.00,	532.75,	532.78,
145.87,	231.50,	320.85,
410.86,	56.00,	65.80,
410.40,	801.25,	309.75,
541.05,	532.76,	981.00,
520.98,	95.00,	16.25,
965.04,	430.86,	654.00,
654.32,	512.10,	549.00,
320.75,	548.00,	541.87,
136.90,	341.00,	650.43,
178.95,	238.00,	535.65,
176.50,	90.75,	145.93,
75.60,	165.78,	507.98,
378.91,	410.75,	510.90,
365.45,	279.00,	505.67,
321.55,	215.44,	405.95,
578.90,	321.45,	103.80,
421.87,	321.56,	356.78,
325.50,	421.80,	321.54,
328.67,	543.87,	378.90,
750.00,	521.87,	520.89,
523.85,	732.90,	720.50,
830.17,	621.54,	589.35,
134.67,	254.87,	342.89,
400.00,	205.25,	265.76,
410.76,	421.87,	283.81,
310.75,	180.00,	185.32,
43.50,	567.32,	250.75,
630.83,	218.82,	320.06,
265.78,	431.08,	489.00,
54.75,	218.50,	543.75,
450.75,	135.85,	543.88,
138.98,	198.00,	267.85,
410.98,	94.32,	126.78,
410.85,	310.50,	505.24,
325.78,	345.75,	500.50,
320.76,	581.09,	581.00,
267.50,	307.50,	305.00,
630.76,	13.50,	15.50,
274.68,	176.89,	163.75.

The minimum value is \$13.50 while the maximum value is \$981.00. The difference between these values is \$967.50. Dividing by 20 gives \$48.375 as a possible cell width. We will select \$48.38 as the value of m. Since each clerk's total sales is recorded to two decimals, we will call the lower boundary of the first cell \$13.455. The balance of the computations and frequencies are given on Figure 1 in which Form 1 is used.

Case 2. Sales in Dollars for January 22, 1932, for 10 Clerks, Firm B

176.50, 234.75, 147.84, 285.00, 410.35, 126.45, 378.90, 250.89, 156.44, 263.21.

These values are listed on Form 2 and the results of the computations are given on Figure 2. If great accuracy is not required, values such as these need only be carried out to dollar values. The amount of detailed analysis depends entirely upon what use is to be made of the data.

By using any of the three forms above it is very easy to apply the statistical method to any business problem involving the analysis of numerical data. The extent to which such an analysis shall be carried depends upon the use made of the data. If the accuracy of the data is questioned, it does not pay to spend a great amount of time and money in analysing it, as too much emphasis will then be placed on statistical results where the data do not warrant such emphasis.

When first dealing with data, the system of causes which are behind the data may be a controlled system or not. Generally the first data obtained comes from an uncontrolled system and it is necessary to carry out quite a systematic study and institute organization or policy changes before the data finally are obtained from a controlled system.

Having once obtained control over the results, it is then possible to predict within limits what degree of variation may be expected and make constructive plans to care for such fluctuations. The use of the above forms makes it possible to handle a great mass of data with a minimum of effort. This is especially true where mechanical aids are used.

Collection, sales survey

(Continued from page 25)

increase in employment figures from week to week."

MINNESOTA: Minneapolis has conducted a personal survey and we are quoting here the results: "There does not seem to be any indication of an improvement as compared to November and December, 1931. Throughout this territory, the weather has been quite severe during January. Many country roads and side roads have been impassable for traffic and we have found instances of the merchant not bothering to open his store because the farmers did not attempt to leave their homes. The latter part of February and beginning of March should show a marked improvement. Spring and seeding time is going to be the turning point, the extent of which would, of course, be very difficult to hazard an opinion." St. Paul has found that during the past 12 months, there has been an improved condition in many balance sheets. Local houses have improved their cash position; reduced their inventories; report collections fair and have gone a long way toward meeting present economic conditions.

NEW YORK: Albany believes that conditions in their territory are far better than most places and states that what may be slow to them would seem good to others in comparison.

OKLAHOMA: Oklahoma City reports a slight improvement and fewer failures. Tulsa reports that, "Things are really looking better now" and general conditions in Northeastern Oklahoma are somewhat improved.

PENNSYLVANIA: Altoona reports that the shops are operating on a slightly better basis than formerly. There is no appreciable change noted in trend in sales or volume in Pittsburgh. The soft coal region mines are not operating in Uniontown.

TEXAS: Ft. Worth reports the following: "Collections are better than anticipated and there have been fewer failures. On the whole, business appears to be holding its own." San Antonio states there is an indication of some improvement in sales and collections. Wichita Falls reports sales and collections have improved during the past few months.

Save in boom days, and spend in gloom days.

—WILLIAM FEATHER.

Answers to credit questions

Conducted by Walter C. Foster

The National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest are printed regularly in Credit and Financial Management. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principle of law involved.

Claim for rent—New Jersey

Q. *Is a claim for rent in the state of New Jersey a preferred one, and has such a claim priority over all creditors?*

A. Section 10, page 79 of the General Statutes of New Jersey provides: "That in all cases where any debtor, being a tenant, shall make an assignment under this act, all the goods and chattels of such tenant on the premises, in possession of such tenant, shall be *first* bound for the payment of rent due to his landlord, and the said claim for rent in favor of the landlord, *not exceeding one year's rent*, shall be first paid and satisfied by the asignee out of the goods and chattels of the said tenant, which were on the demised premises at the time of the assignment."

Terms

Q. *A places an order for merchandise with B and on the order specifies the discount terms, i. e., the 15th of the following month. B upon receipt of the order ships the merchandise and follows the shipment with an invoice which states that the terms of payment are 2 per cent discount if remittance is received by the 10th of the following month. What are the probable legal aspects of such a situation?*

A. Under these circumstances, A's order constitutes an order which is accepted by B in accordance with the terms of the offer by shipment of the merchandise. B cannot change the discount terms by sending a bill after the transaction has been completed specifying different terms. If B, upon receipt of the order, had acknowledged the order, stating that the merchandise would be shipped on its terms, rather than on A's terms, and thereafter had shipped the merchandise, and A had accepted the same, B's acknowledgment of the order would have been a counter-offer on its part, which would be deemed to be accepted by A by A's act in receiving and accepting the merchandise. Under these circumstances B could enforce its terms of sale.

Effect of trust chattel mortgages on judgment

Q. *What effect does a trust chattel mortgage for the benefit of creditors have on a judgment which is under four months old? Also, what effect will an assignment to a friendly trustee have upon a judgment under four months old?*

A. In the absence of any statute, and no statute seems to be pertinent, trust chattel mortgages for the benefit of creditors in no way affect a judgment which has been entered prior to the execution of the trust. Similarly, an assignment to a friendly trustee could have no effect. Judgments entered prior to assignments as above mentioned are liens upon the property of the debtor. It is only when the judgment is obtained and entered subsequent to the execution of the assignment that the judgment is ineffectual.

Liability of corporation officer in signing notes

Q. *Is an officer of a corporation signing or endorsing a note in the capacity of an officer for his company in jeopardy at any time or under any circumstances of being held as an individual guarantor, as for instance:*

The Blank Company
John Jones, President
James Brown, Treasurer

Also, which is the most used form for making a note to be offered the bank for discount: "We promise to pay to the order of ———— Bank" or "We promise to pay to the order of ourselves," and then endorsing the note?

A. An officer of the corporation who signs or endorses notes in the fashion suggested, to wit: "the ———————— company, John Jones President," cannot be held personally liable on the note. It is only when he signs as John Jones President that the courts term the word "President" merely descriptive and hold him to account personally. The addition, however, of the name of the corporation substitutes the corporation for the individual and relieves him from possible liability.

Either one of the forms suggested in the inquiry of notes for discount purposes may be used. The form to be employed is usually governed by the preference of the bank at which the discount is effected.

Addresses wanted

BAY RIDGE HEATING ENGINEERS, 4405 Fifth Avenue, Brooklyn, New York. WILLIAM KANE—operated the Bay Ridge Heating Engineers and was also known as EDWARD PHILLIPS KATZ and possibly JACKSON.
BERGER, CHARLES S., formerly 342 Fairfield Avenue, Bridgeport, Conn.
BOULFROIS, ARMAND, formerly at Pittsburgh, Penna.
CARDWELL, F. H., formerly at Germantown, Penna.
CHASE, LEE, formerly at Hotel Plaza, Miami, Florida.
THE CITIZENS SECURITIES CORPORATION, formerly of 701 Brisbane Bldg., Buffalo, N. Y. President—H. B. Woodford, formerly of 2414 Delaware Avenue, Buffalo; Vice-Pres. and Treas. G. L. Woodford (Son) and S. L. Keely, Secy. H. B. Woodford was a resident of Peoria, Ill., son and secretary lived in Galesburg, Ill.
DALE, JAMES, formerly at Kane, Penna.
DOYLE, M. J., formerly d. b. a. Motor Body Co., 1301 Superior Ave., Cleveland, Ohio.
FARRELL, JACK, formerly at Bedford Village, New York.
GARLAND, P. B., formerly at Philadelphia, Pa.
GELLMAN, SAMUEL, trading as Ideal Men's Shop, formerly of 609-11 Eighth Avenue, New York, N. Y.
GOLDEN, ANDREW, formerly at Wolfboro, N. H.
HICKS, JAMES K., formerly of Union, Kentucky.
JANSEN, F. W., formerly of 137 South La Salle Street, Chicago, Illinois. Now believed to be at Waukeegan, Illinois.
JOHNSON, S. C., painter and decorator, formerly 4429a Labaddie Avenue, St. Louis, Mo.
KLEIN, ABRAHAM, 2611 West Schubert Avenue, Chicago, Ill.
KOHLER, H., also known as Kevelowitz, formerly operated as Empire Knee Pants Company, 164 Atlantic Avenue, Brooklyn, N. Y.
LIPPS, BAYARD D., formerly at 1450 B'way, New York. Thought to be in Bethlehem, Pa.
McCONAHY, JOHN A., D.D.S., formerly at 39 W. Adams St., Chicago, Ill.
MAGUIRE, W. F., formerly employed at Brannigan Drug Store, Amsterdam Avenue at 69th St., New York City.
PLATFORD, AL., formerly at Teaxs City, Texas, Mobile, Ala., and San Diego, California.
PRITCHARD, MR. C. G., 4123 Huey Avenue, Drexel Hill, Penna.
PRITCHARD, HUBERT, formerly d. b. a. Mack's Auto Service, 1143 McAllister Avenue, Columbus, Ohio.
QUIMET, RAY, formerly at Chestnut Hill, Mass.
ROLISON, GENE, formerly at Mitchell, S. D., and Tampa, Florida.
ROQUE, BENINGO, formerly operated Roque's Pharmacy, 1705 N. Howard Avenue, West Tampa, Florida.
SMITH, THEO. J., formerly at Mount Kisco, N. Y., and Providence, R. I.
TAYLOR, W. G., who formerly had a store in Louisville, Ga.
VAN DEN BERGHE, B., who formerly operated the Montclair Pharmacy Co., West 28th & Montclair, Los Angeles, Calif.
WEISMAN, IRVING, formerly operating Weisman's Drug Store, Sheboygan, Wisconsin.
WHITELY, CLYDE C., painter and decorator, formerly 923 Baltimore, Kansas City, Mo.
WILLIAMSON, L., painter and decorator, formerly 1023 Park, St. Louis, Mo.
WOHLMAN, SAMUEL, Prop., Colt Pharmacy, 140 Washington Street, Paterson, N. J.
WOLF, ELI, formerly operated under the name of Economy Furn. Store, at 148 S. Main St., Decatur, Ill. Later said to be located at 148 S. Trumble St., Chicago, Ill.

Collection troubles

An old negro, down South, handed a letter to his preacher. It was addressed to "De Lawd." It said the writer was about to lose his house because he could not pay interest on the mortgage; also that he was without food and was hungry. He asked "De Lawd" to lend him $50. The preacher, taking pity on the old man, collected $42 among his friends and gave it to him. A week later the old man handed the preacher another letter addressed to "De Lawd." It read:

"Deah Lawd—I ax yoh to loan me $50 an' de preacher done give me forty-two. From now on please do business wif me direct."—*Textileathergram.*

$500,000,000 fire loss

2

(*Continued from page* 19)

The manufacturer, wholesaler, retailer and banker will all be benefited immeasurably by the success of this program. The Fire Insurance companies cannot meet this responsibility alone. Every business man must do his share. Radio addresses, appeals by Governors and Mayors and the spirited efforts of cooperative organizations must be supported by the individual efforts of business men throughout the country.

A saving of $250,000,000 through the elimination of half of our annual fire waste means a gain of close to a billion dollars for American business. When dollars and commodities are tied up through fire catastrophes they cannot work. Put the $250,000,000 saving to work and it will be turned over at least four times during the year. No one can underestimate the salutary effect of an additional billion dollars of business during 1932.

The National Association of Credit Men will be behind this program every day during the year. It is your duty to do as much as an individual. Therein lies the attainment of our goal to reduce the $500,000,000 waste to at least $250,000,000 and cut the loss of 10,000 lives to at least 5,000. GET BEHIND THIS PROGRAM! !

Red lines make bread lines

(*Continued from page* 14)

Shorter work hours are a good business measure. For many of our most important industries are leisure industries—automobiles, radios, motion pictures, the millions of books, newspapers and magazines published. Increase the worker's leisure and he becomes a customer of these industries. He also becomes a better customer of many other industries, for he needs better clothes, better furnishings for his home as the family has more leisure to entertain friends; he thinks of education and self improvement and attends night school classes.

There remains, however, the problem of "cyclical" unemployment, that is unemployment due solely to business depression.

Business enterprises could provide against cyclical unemployment by laying up reserve funds to maintain wage payments. In years of prosperity, such reserves are laid up in the form of corporate surpluses, and are drawn upon for dividend payments in depression years. In 1930, earnings of industrial corporations were far below 1929. Wage payments to workers were below 1929 by $9,000,000,000, but dividend payments were actually higher in 1930 than in 1929. The best figures we have, collected from representative corporations by the *Journal of Commerce*, show dividend payments of $2,486,000,000 in 1929 and $2,919,000,000 in 1930. If it were the deliberate policy of American corporations to lay up reserves for wage payment, as they have reserves for dividend payments, the greater part of our depression unemployment could be provided for. Firms responsible for maintenance of wage payments would see to it that workers did useful work in return for their pay, and this would help to keep our entire industrial mechanism functioning normally.

Some measure for economic planning to prevent the violent up and down swings of the business pendulum will also be necessary before business progress can go forward in an orderly way and unemployment and other depression evils be adequately controlled.

American labor wants to solve unemployment in a constructive way, with measures to provide work rather than doles which subsidize idleness. We want to stabilize employment and see to it that every working man has an opportunity to continue his normal economic functions of producing and consuming without periodic dislocations. This is the only creative solution, in keeping with American ideals of economic and social progress, in keeping with the American workman's self respect. But this solution involves the willingness of American industry to assume responsibility for its normal work forces.

An American employer does not expect the public to pay depreciation charges on his idle machinery in a slack period. Why then should he call on his fellow citizens to support his idle workers? They are more essentially a part of his producing mechanism than his machines. Should he not be far more responsible for them when their unemployment also involves human suffering and loss? Surely every American workman should have the right to work if the rights of life, liberty and the pursuit of happiness established by our constitution are anything but empty words.

The worker's right to work can be established in a practical way by including a time clause in the work contract. Work can be guaranteed for a period of one year, for instance. Such assurance of continued employment would change a worker's entire mental outlook. He would be relieved of anxiety; he would be in a position to budget his income for normal expenses; he could undertake credit purchases with confidence; he would not need to hoard every penny he earns against a possible lay off. Workers laid off by technical improvements could be given a dismissal wage to help them tide over until new work can be found. The widespread use of the work guarantee and dismissal wage would be a movement of far reaching business significance. A work guarantee would automatically make an employer responsible to keep his forces at work and to reserve funds for this purpose.

One other point is of paramount importance in planning for orderly business progress. No one interested in maintaining a sound and stable basis for credit and financing of business operations can afford to ignore it. That is the distribution of American income.

After a decade of development in mass production, business is faced with a problem of mass distribution. No more tragic evidence of this could be found than the spectacle of millions out of work and hungry, with millions of bushels of wheat glutting the market: millions needing clothes and thousands of bales of cotton which cannot be sold. Even in 1928, a year of high prosperity, Professor Nystrom estimates that 20,000,000 persons in the United States were living below the minimum standard for health and efficiency—twenty million poor in the richest nation in the world! Our farms and industries are handicapped, their progress is checked, they cannot produce at full capacity because their product cannot reach those who need it. Engineers estimate that our industries are equipped to produce 50 per cent more than they can

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Red lines make bread lines

(*Continued from page* 43)

sell even in the most prosperous year. And yet there are 20,000,000 in need for want of their products. Would it not be a most practical business move to equip these people to buy?

We have not looked carefully enough to the development of our national buying power in past years. While the factory worker's producing power was increasing 50 per cent in the decade of 1919 to 1929, his buying power—wages in terms of the goods they will buy—increased only 26 per cent. Developments in other industries were similar and consequently buying power has not kept pace with producing power. Our industrial progress has been checked and industry fallen short of its full achievement.

Instead of increasing wages and raising living standards for the millions who are still below the minimum level, much of the wealth we created in the last decade has built up large fortunes. In the hands of very rich men, surplus income is either reinvested and so goes to increase plant capacity still further, or it may be used for speculation. Income paid to wage earners by wage increases, on the other hand, is used to buy industry's products, for their need is great.

In recent years we have created a new type of millionaire—one who has an income of a million dollars, not merely one who owns that much wealth. In 1919 there were 65 such millionaires; by 1929, they had increased eight fold and there were 513. Income paid to those with $100,000 a year or more increased from $900,000,000 in 1923 to $4,300,000,000 in 1929, a gain of nearly three and a half billion dollars!

Corporation surpluses also piled up at the rate of about $3,000,000,000 a yeat from 1922 to 1929. Much of this surplus money also helped to finance speculation in the great stock market boom. At the peak of stock market activity, loans from corporations rose to $3,500,-000,000.

The failure of wages to keep pace with producing capacity has not been due to our failure to create sufficient wealth. If this wealth were distributed where it would answer an economic need and increase buying capacity, if it were laid aside as reserves to keep up wage payments, in times of unemployment, would it not do far more to stabilize our progress and increase our prosperity?

To distribute the nation's income in a more equitable way, so that consumption will be financed and low living standards raised, involves a changing attitude of mind on the part of business executives. Already the so-called "high wage philosophy" has made headway, but it has not gone far enough. In measure as American employers realize that the sales problem is a problem of financing consumption, and that wages are the basis of buying power, they will seek measures to create a more adequate home market. Reserve funds to carry workers over times of unemployment, and progressive increases in wages should become part of American business policy.

We have heard much talk recently about reducing production to keep the economic balance. Would it not be more constructive to avoid reduction of buying power in every possible way and turn whatever surplus funds we have to increase buying power and so increase production? As production increases more men will be employed and buying power will increase still further.

In the field of credit and finance, particularly, executives are in a position to lead in the formation of constructive business policies. The business world of the future is in the making now. Will business meet the challenge to creative leadership?

Credit department leadership

As a result of research work conducted by the Sales Promotion Department of the Associated Oil Company of California for the purpose of determining ways and means to increase sales volume without increasing sales expense, it was decided that the entire personnel, some 3,500 employees, be drafted into sales work.

It had been observed that not infrequently employees would advise the department of the name of a friend from whom an order could be obtained. This prompted the thought that if such information was received voluntarily, a decided possibility existed of securing many more customers for the company through employees whose relatives and friends were potential users of the company's products. Hence the decision referred to above.

It was apparent that an attempt to sell the entire line would be burdensome. Therefore, it was decided to bring the sales pressure against one item, Associated Scrip Books, the Scrip being acceptable in lieu of cash for any of the company's products at any of the company's retail outlets.

Cognizance was taken of the fact that employees primarily interested in the discharge of their duties in the oil fields, or in the Accounting Department or in the Credit Department, could not be expected to maintain sustained interest in selling. Thereupon a contest was started September 1st, to run for three months. To create widespread interest, the entire personnel of the Company was organized in seventeen divisions, each division in charge of an executive.

The regular sales force was not excluded from the contest. Each individual in every other department of the company competed on an equal basis with the regularly constituted members of the Sales Department.

Prizes were announced for the leader in each division, and a grand prize for the company leader.

Of genuine interest to the credit fraternity should be the announcement that the finance division leader award and also the company leader grand prize went to the General Credit Manager, Mr. A. A. Hock, who is also a Director in the Credit Managers' Association of Northern and Central California and chairman of the Fraud Prevention Committee.

It was a distinct surprise to the majority of the employees in other divisions. It goes without saying, perhaps, that it was somewhat of a shock to the sales organization to learn that the Credit Manager had outsold each and every member of the sales force, competing on an equal basis.

The result of the contest has served to emphasize the sales-mindedness of the Credit Department, a fact that hitherto was not generally recognized, although always existent.

Another one

Fond Mother: I hope my little darling has been as good as gold all day?

Nurse (au fait politically): No, Ma'am, he went off the gold standard about tea-time.

—*London Humorist.*

Keep moving

Sorry, old chap, but I am looking for a little financial succor again.

You'll have to hunt further. I'm not the financial sucker I used to be.

—*The Emancipator.*

Press on to Detroit!

(Continued from page 18)

nance and banking, with particular emphasis on the Government's reconstruction program.

The entertainment feature of the Convention will begin on Monday night with the President's reception, which is the social high-light of the Convention. There will be a boat trip to Bob-lo Island, where a thrilling and surprising field day will be held. There will be sports and field events in which delegates will participate. Perhaps some new athlete will be discovered at the convention's field day to represent our country in the Olympics to be held in Los Angeles later in the summer!!! Of particular interest will be a visit to the Ford Village, a unique and outstanding monument created by our country's greatest industrialist to preserve for posterity many objects of national historical interest.

In addition to all of this, there will be golf, dancing, sight-seeing trips—and just across the river, Canada, which will give our delegates an opportunity to pay a visit to our progressive sister country.

One of the most famous male choruses of the country—The Detroit Orpheus Club—will be a musical treat for the delegates. Special attention as always will be given to the entertainment of the visiting ladies for if the ladies don't like it—it isn't a good convention.

As always, the CREDIT AND FINANCIAL MANAGEMENT Business Show will be a point of great interest to all convention delegates. All of the advertisers in CREDIT AND FINANCIAL MANAGEMENT will display their products at this business show. These products and services are exceptionally suited and adapted to solve the various management, accounting and credit problems which are characteristic to the Association's membership. This year the N. A. C. M. will offer an exhibit and display of its services and activities. This display will be developed by staff members of the National office in co-operation with the Secretary-Managers.

This brief article is nothing more than the starting gun for the convention activities. As it goes to press, the convention program and organization will be well under way. As rapidly as definite commitments are made, the chief features of the convention will be translated to the membership through the pages of the magazine, special circulars, letters and bulletins.

It is important to remember that there is no substitute for your National Convention. It brings you up-to-the-minute on the newest developments in credit, finance and business. You fraternize with men and women who have the same daily problems that you do. You cannot help but go away from the convention with renewed enthusiasm, greater faith in your Association, and enriched with new ideas and contacts. It is virtually an axiom that the men and women who attend their Association convention are the outstanding credit leaders in this country today.

A new and better leadership is the key note of the convention. Detroit is centrally located and readily accessible to delegates from every section of the country. Mark on your calendar pad immediately the date of June 20th and plan to be there!

"As you think, you travel—you are today where your thoughts brought you; you will be tomorrow where your thoughts take you." Think hard enough about your attendance at the Convention and you will be there. Particularly this year is it important to attend your convention and place yourself among the leaders of your profession. There is absolutely no substitute for your National Convention.

President Hoover on bankruptcy

President Hoover on February 29 sent a special message to Congress designed to effect reforms in the bankruptcy laws and the laws affecting criminal procedure.

The President, in making the announcement of his message at his regular press conference, said the proposed reform should "save millions to creditors and bankrupts" and effect direct economy in the administration of justice.

Mr. Hoover said that two years ago he had ordered an investigation into the entire bankruptcy situation in the country. He said as a result it had been shown there were 23,000 bankruptcy cases in 1921, 53,000 in 1928, and 65,000 in 1931. He said that these bankruptcies cost $144,000,000 in 1921, $740,000,000 in 1928 and $900,000,000 in 1931.

This point was emphasized in an effort to show that the increase in bankruptcy cases was not a result of the economic situation. The President asserted that the increase was due to deeper causes." He said he would recommend legislation to reach those causes and solve the problem.

Court decisions and Washington notes

Court decisions

SALE OF SECOND HAND MACHINE. WARRANTIES. ACTION ON NOTES FOR PURCHASE PRICE. FAILURE OF CONSIDERATION. (FLA.).

Plaintiffs in error brought suit on seven promissory notes executed by the defendants to plaintiff in part payment for a second-hand steam shovel, title to which to remain in vendors until all notes were paid. The defendants' plea set forth that the notes were given as part payment of the purchase price of a second-hand steam shovel sold by plaintiffs to defendants; that the shovel was warranted by plaintiffs to be equipped with $1,500. worth of new parts, in good repair and running order capable of performing the work in the quarry and suitable therefor; that in truth and fact the shovel so delivered was not equipped with $1,500.00 worth of new parts, was not in running order, nor in good repair, and stating in what particulars; that it was not capable of performing the work required and was utterly worthless for the purpose intended; that defendants within a reasonable time offered to return said machine to plaintiffs because the same was not as warranted and represented and that by reason of the premises the considertion for the severl notes but failed. Attention has been directed by plaintiffs to what appears to be the general rule that there is no "implied" warranty as to the condition, adaptation fitness or suitability for the purpose for which made, or the quality of an article sold as and for a "second-hand article". *Held* that there may be an express warranty or of an article though sold as and for a second-hand one. In the instant case there is undisputed evidence of both written and verbal assurances that the machine was in good workable condition. In fact the rule seems to be that where the machinery is such that it must be used before the quality can be ascertained, it not being apparent from examination, it is the right of the buyer to make such use of the machine as may be necessary to determine the qulity, and that such use does not deprive him of his right to rescind for breach of warranty. The pleas upon which issue was joined and tried does not come within the purview of one asking for a rescission and a return of the cash payments to defendants and a return of the machine to plaintiffs. The pleas of that nature were eliminated by the trial court. The jury having by their verdict found that plaintiffs were not entitled to recover upon the notes and the same having been approved by the trial court the judgment should be affirmed. *McDonald et al v. Sanders et al.* Fla. Supreme Ct. Decided October 20, 1931.

* * *

SALE OF TRACTOR. WARRANTIES. BREACH. PROMISSORY NOTES. (KANSAS).

Held that where an order is made, in writing, for an "18 x 36 H. P. Standard" tractor, containing a warranty that the tractor "is well made, of good materials and workmanship" and the tractor delivered can neither develop nor sustain sufficient power to be of any value as a tractor, the consideration for a note given as part payment for the tractor failed, and the maker may properly defend against the note. *Oliver Farm Equipment Co. vs. Rich.* Kansas Supreme Ct. Decided November 7, 1931.

* * *

ACCEPTANCE OF GOODS. DEFECTIVE PARTS. REPLACEMENT. WAIVER OF CONDITIONS. DAMAGES. (N. C.).

Where the contract for the sale of machinery provides that in case any part is defective the seller should replace it with other suitable parts, and that the acceptance by the buyer of any part should be a waiver of damages due to delay and that the seller, should be liable only for the rental value of other parts, and in the buyer's action thereon the seller's evidence is to the effect that the buyer, although aware of the defects of the machinery and that it did not come up to specifications, failed to demand replacements and accepted the machinery and paid the purchase price, and the buyer's evidence discloses that the agents of the seller sent by it adjust the matter, promised that "everything would be adjusted satisfactorily," *held* that the representations of the agents of the seller inducing the payment of the purchase price amounts to a waiver of the stipulations as to replacement of defective parts and as to the acceptance of the machinery, and the buyer may recover his damages under the rules for assessment of damages in such cases, and a verdict in the buyer's favor in accordance therewith will be upheld. Judgment for plaintiff affirmed. *Edenton-Mackays Ferry Company v. Fairbanks-Morse and Company.* N. C. Supreme Ct. Decided October 21, 1931.

* * *

CONTRACT OF SALE. THIRD PARTY BENEFICIARY. RIGHT TO SUE THEREON. (ILL.).

The suit was filed against John H. Harrison and M. J. Wolford on a certain contract entered into between them and Caldwell & Co., Appellee, Carson, Pirie Scott & Co. filed suit as a third party benefited by the contract. A demurrer was filed to the declaration attacking the right of appellee to sue on the contract, and the demurrer was by the trial court sustained and judgment for defendants entered. On appeal the Appellate Court reversed the judgment of the trial court and instead of remanding the cause, it, pursuant to a stipulation of the parties, entered judgment for the amount of the claim. The sole question is the right of appellee to sue on the contract involved. Harrison was president and Wolford was treasurer of the Danville Hotel Company an Illinois corporation organized for the purpose of constructing, and then engaged in the construction and furnishing of a hotel. The hotel company had issued its bonds and had entered into an agreement with Caldwell & Co. by which the latter was to underwrite and dispose of the bonds, the funds to be used in the construction and furnishing of the hotel. To secure these bonds the hotel company executed and delivered a real estate mortgage on the property and also its chattel mortgage on all furnishings and chattels installed in the hotel. Later, the hotel company not having sufficient funds to furnish the hotel in accordance with the requirements of the trust deed and Caldwell & Co. having in its custody certain of the proceeds of the sale of the bonds and refusing to make further disbursement of such proceeds until the hotel company had in its possession sufficient funds to furnish the hotel, or until assurances should be given that the furnishings would be installed free of lien or encumbrance, Harrison and Wolford entered into a contract with Caldwell & Co. Appellee furnished goods to the hotel company. The hotel company did not pay for the goods and suit was brought on the contract. There is but one question in the case, and that is whether appellee has a right to sue on the contract between Harrison and Wolford and Caldwell & Co. *Held* that the rule is settled in this State that if a contract be entered into for a direct benefit of a third person not a party thereto, such third person may sue for breach thereof. The test is whether the benefit to the third person is direct to him or is but an incidental benefit to him arising from the contract. If direct he may sue on the contract; if incidental he has no right of recovery thereon. It is argued that the only thing here which Harrison and Wolford agreed to do was to save Caldwell & Co. harmless. But it appears from the contract that Harrison and Wolford stipulated that the goods sold by appellee to the hotel company would be paid for by them if the hotel company did not pay. This was a valid agreement, based on valuable consideration. Harrison and Wolford's agreement was not merely to save Caldwell & Co. harmless on its undertaking to underwrite and sell the bonds, but was to purchase from appellee certain goods and pay for them if the hotel company did not, so that those goods might be installed lien free. Appellee's right to sue arises though there is no asserted or supposed obligation from the promisee to such third party. The donee beneficiary has a right to enforce such a promise. Appellee in this case is a donee beneficiary under this contract. It is directly, and not incidentally, benefited thereby. Judgment affirmed. *Carson Pirie Scott & Co. v. Barrett et al.*, Exrs. Ill. Supreme Ct. Decided October 23, 1931.

* * *

Washington notes

Wholesale indexes weekly

A revised wholesale price index, to be issued weekly as well as monthly, and to contain 784 different commodities or price series instead of 550, is being published this month for the first time by the Department of Labor.

The additional items are chiefly in the group of fully manufactured commodities, or the so called consumers' goods.

Weekly price indexes for wholesale and retail fields were advocated by the Social Science Research Council, in a resolution adopted at its recent meeting, in Washington.

Report on bankruptcy soon

An exhaustive report on the operations of the bankruptcy laws, based on a survey begun in July, 1930, by the United States Department of Justice, is in the process of being printed and will shortly be submitted to the President, according to the annual report of the Attorney General.

In his annual report the Attorney General states that: "The present bankruptcy law has failed to achieve its purpose. It has not ensured a prompt and efficient realization and pro rata distribution of assets of insolvent debtors, and it has not discouraged commercial fraud and dishonesty by denial of discharges."